

BSCCo Business Plan 2012/13

Contact: David Jones
Telephone: 0207 380 4213
Email: david.jones@elexon.co.uk





Introduction

We are pleased to present the BSCCo (Balancing and Settlement Code Company) draft Business Strategy and Annual Budget for the 2012-2013 financial year.

The document is in two parts; a Business Strategy describing our priorities and major activities, and an Annual Budget setting out the associated costs.

We want your feedback on the aims and initiatives described in this plan. The BSC Panel and ELEXON Board will take account of our stakeholders' views in the final Business Strategy and Budget which will be agreed and issued before 1 April 2012.

How to respond

Please provide your response to david.jones@elexon.co.uk. If you have any questions please contact David Jones at david.jones@elexon.co.uk or 020 7380 4213.

Want to know more about or how to get involved with the BSC?

Visit us at www.elexon.co.uk or contact your Operational Support Manager.



Foreword by Chairman and Chief Executive

As predicted 2011 has been a defining year for BSCCo. Twelve months ago we published a Business Plan that set us on the road for change but that had at its very heart the robust delivery of the BSC services that we know our customers value. We recognised the need to ensure the BSC, and ELEXON as the BSCCo, are agile enough to respond to the emerging market changes.

We are extremely pleased with what we have achieved in the last year in line with the Business Plan priorities introduced in 2011-2012. It is particularly welcoming to see further significant improvements in a number of areas in the results of our customer survey, building upon the high benchmarks we have set in previous years. We are proud of the whole team here at ELEXON.

We've been engaging with the industry, the government and the regulator on the organisational and governance changes needed to support our ambition to do more, and look forward to implementing 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. We have already demonstrated this value through the award to us of the Warm Homes Reconciliation service.

Looking forward, it is important that we remain consistent in our strategy. Therefore you will see that our priorities this year are a continuation of the journey we embarked upon last year.

The need for agility seems even more important in the next few years. Last year there was tremendous excitement at the emerging smart metering solution which will transform the industry. Now on the horizon, the energy industry, shaped by the political and economic environment, will be juggling many more significant industry developments. Alongside the introduction of smart meters we now have emerging thinking on the landscape for Smarter Markets and Smart

Grids. Energy Market Reform will be introduced, involving new bodies and arrangements that must integrate with existing systems and processes. At the same time the EU is driving greater standardisation across member states.

Each of these will impact the existing BSC arrangements to varying degrees. We are in great shape to be able to continue to support our customers during these challenging times. As valued, expert advisors we will help our customers, DECC and Ofgem to understand what those impacts are and work together to develop solutions that are efficient, economic and effective.

We are therefore pleased to be able to describe in this Business Plan the next steps on the journey.

Our core mission remains:

To deliver the BSC effectively, efficiently and economically, to the benefit of our customers.

And our vision remains:

To be a leader in the efficient transformation of energy markets – by providing shared solutions to address common industry problems.

We are excited about the developments in the energy industry and look forward to helping, shape and adapt these to ensure the BSC arrangements are fit for the energy markets of tomorrow.



Chairman Andrew Pinder



Chief Executive Peter Haigh

Review of 2011-12¹

In 2011-12, we put in place a Business Strategy that would enable us to maintain and build upon our previous achievements to fulfil our mission whilst supporting the best strategic outcomes for the evolving industry by pursuing our vision.

We focussed our work around four strategic priorities:

- Actively managing and continually improving BSC services to ensure that we delivered in an efficient and economic way;
- Driving efficiencies and savings in our operational business;
- Improving the customer experience and developing richer customer relationships; and
- Developing our services and adapting our business to address industry challenges.

Our priority remains the delivery of robust, effective BSC services as described by the Balancing and Settlement Code.

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

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

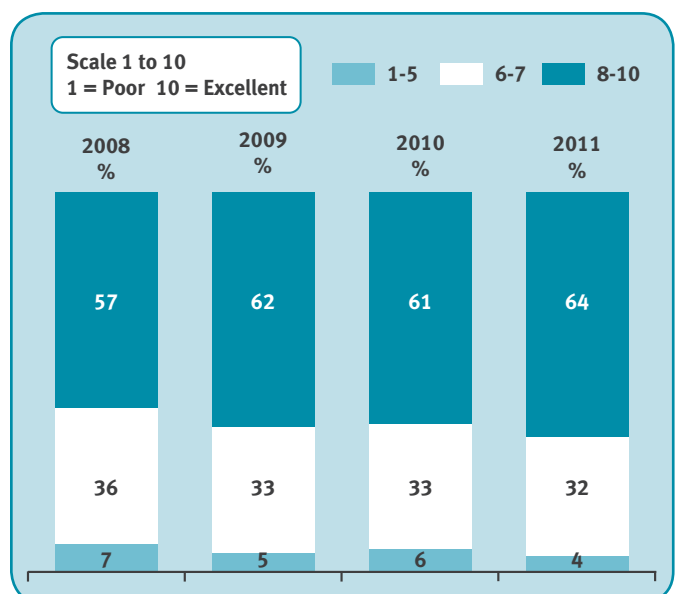
This year, we've delivered a number of significant changes and improvements to the core BSC services. We implemented many of these changes through the BSC Modification process in consultation with our customers, including changes to code governance processes which arose from Ofgem's Code Governance Review. We've also addressed a number of credit matters, and managed defaulting Parties to minimise any financial impacts on the rest of the industry.

Improving the BSC

Other changes we've processed will have been less visible to our customers, but have enabled us to significantly improve our delivery of the BSC for the benefit of customers. For example:

- Upgrading the SVAA system to the latest version of Oracle and managing the roll out of new, improved PARMS reporting.
- Reviewed the Credit Cover, Credit Default, Payment Default and Section H Default processes and recommended four areas for improvement. We were encouraged by the strong Panel endorsement of the findings.

We are pleased that, as a reflection of the success of our service provision, our customer 'overall satisfaction' scores have continued to improve:



¹ Further information can be found in our Mid-Year Business Update (November 2011): http://www.elexon.co.uk/ELEXON%20Documents/Mid%20Year%20Update%202011_v2%200.pdf

Driving efficiencies and savings in our operational business

Over the year, we've undertaken a number of activities to drive efficiencies and savings in our operational business. We've worked in partnership with Logica and Cognizant, our core systems service providers, to drive through a number of improvements to our operational processes to ensure that:

- we're achieving maximum benefit from the contractual relationships we have in place;
- we're procuring the right services; and
- service improvements are identified and delivered.

Improving the customer experience and developing richer customer relationships

This year, we've continued to seek feedback from our customers on the services they want from us. For example, last year our customers told us that they really value having a named Operational Support Manager (OSM), so we've focussed on maintaining the high standard of our OSM service and the tailored visits and training sessions provided by our OSMs.

Formal measurement of how our customers value and perceive us comes through our annual customer survey. The results of this year's survey demonstrated that we've maintained – and in some areas, improved on – the high standards of customer feedback that we received last year. This is particularly rewarding given that it has been achieved at a time that the business has been through a complete reorganisation. The results show that customers perceive us as more capable, more expert, more proactive, more ambitious and less bureaucratic than in previous years. They also value us as an expert resource more than ever before.

Key savings last year

- Streamlined delivery of Profiling Agent service, **realising £2m of savings** over the contract term.
- Reviewed assurance services, saving over **£200k** across the TAA, BSC Audit and Qualification Service Provider contracts.

We committed to ensuring we are delivering the business efficiently. By managing our resources over the course of the year, we:

- **Saved some £624k** in people costs while maintaining the same quality of service valued by our customers.

How our customer service ratings on communication have improved

- 10% more customers scored us 8/10 or more compared to 2010 on the quality of our communication
- 5% more rated us more highly on our level of communication
- 6% more customers found our information sheets and process guides more useful
- 12% more customers found the quarterly report more useful
- 12% of customers said that our service had improved thanks to improved or simpler communication.

Developing our services and adapting our business to address industry challenges

At a time of transformation in our industry, we have applied our knowledge and expertise to a number of areas to provide advice and guidance, whilst facilitating wider debate and consultation across the industry.

Naturally, one of our areas of focus has been smart metering. We don't want settlement to be a barrier to innovative technology like electric vehicles and microgeneration, so we've been working on optimising settlement for smart as well as reviewing the BSC's profiling arrangements to ensure that they adequately reflect and incorporate the advances in metering technology as well as future smart developments. We have continued to provide support and share our expertise with the Government's Smart Metering Implementation Programme. All of these activities have been carried out against a constant backdrop of protecting the core settlement operations.

An exciting precedent was set this year through DECC's award to ELEXON of the Warm Home Reconciliation Contract, following a competitive process. This is the first example of ELEXON being able to make the existing settlement infrastructure work harder on behalf of industry and consumers. We're delighted by the recognition that we're willing and able to do more and operate beyond the narrow confines of the BSC.

ELEXON Service Ratings Over Time

	2008 %	2009 %	2010 %	2011 %
Overall Professionalism	68	86	81	89
Overall Level of Communication	40	66	65	70
Overall Quality of Communication	39	67	60	70
Providing Accurate Information & Answers	58	67	69	75
Providing all the Necessary Information	45	67	64	69
Being Flexible	19	44	38	49

Scale 1 to 10
1 = Poor 10 = Excellent

Our Strategic Priorities for 2012-13

We have come a long way on the road we embarked upon in 2011 and we intend to continue on the journey. It is no surprise therefore that the key message for this year's Business Plan is consistency. In the coming year, our overall strategy will be to:

- Maintain and build upon our previous achievements to fulfil our mission – **“To deliver the BSC effectively, efficiently and economically, to the benefit of our customers”**
and
- Support the best strategic outcomes for the evolving industry by pursuing our vision – **“To be a leader in the efficient transformation of energy markets by providing shared solutions to address common industry problems”**

Ensuring excellence in the governance and operation of the balancing and settlement arrangements remains our number one priority and we will keep our focus as a business on this. We do plan to proactively seek opportunities to engage with our customers, use our expertise to increase our value to BSC parties, and ensure that we can play a full role in the forthcoming Smart Metering Implementation Programme and the future arrangements. But as we do this, we will always recognise that our performance in delivering the BSC is the bedrock of our ambition to play a wider role in the industry.

We recognise that, during this year, our governance will change. We have therefore drafted this Business Plan with a clear view that the activities contained in the following pages are appropriate and necessary whatever the governance model is. Most importantly this plan is designed to allow for delivery of the BSC in an effective, economic and efficient manner.



Support the best strategic outcomes for the evolving industry by pursuing our vision

Maintain and build upon our previous achievements to fulfil our mission

“To be a leader in the efficient transformation of energy markets by providing shared solutions to address common industry problems”

“To deliver the BSC effectively, efficiently and economically, to the benefit of our customers”

To fulfil our mission, we will:

- **Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way**
- **Drive efficiencies and savings in our operational business**
- **Improve the customer experience and develop richer customer relationships**

To pursue our vision we will:

- **Develop our services and adapt our business to address industry challenges**

To support both we will:

- **Invest in our people for the benefit of our industry**

These priorities – and the key activities that we will undertake to pursue them – are explained further below.

Our Five Strategic Priorities

1

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

2

Drive efficiencies and savings in our operational business

3

Improve the customer experience and develop richer customer relationships

4

Develop our services and adapt our business to address industry challenges

5

Invest in our people for the benefit of our industry

Priority 1 – Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way

Our focus remains the delivery of robust, effective BSC services as required by the Balancing and Settlement Code. We will continue to work closely with the BSC Panel and its Panel Committees, providing the support and analysis they require to fulfil their responsibilities on behalf of BSC Parties.

Our aim, to deliver an excellent service that exceeds customer expectations, will be sustained, while instilling confidence that we provide value by continually looking for innovative ways to deliver increased value to the industry.

We have reviewed and simplified our cross business process to deliver change, dovetailing new methodologies around innovation and project delivery to provide a clear view of all change on the radar, under consideration and in delivery. We will continue to embed these improved working practices through 2012/13. We have updated our IT support and maintenance provisions to enhance process and system efficiencies. We've also revised a number of committee services and retired the Supplier Agents Forum (SAF) as a regular meeting based on feedback from customers. The SAF will now only be held as demand requires.

We'll strive to identify further opportunities like these, where we can drive efficiencies that benefit our customers.

Activities to support Priority 1

To meet Priority 1, we will:

- ensure the ongoing integrity of the BSC settlement and Warm Homes arrangements;
- develop improvements to our end-to-end operational delivery;
- streamline, automate, in/outsource or retire functions to ensure that the balance of service provision and our level of service remains fit for purpose and sustains our value for money delivery.

Delivery of Application Strategy

We will seek to identify and address instances where ELEXON's systems, processes and procedures may be more complex, inefficient or demanding than necessary. By taking advantage of technology advances and best practice we can make a real difference to our customers; delivering value and making it simpler and cheaper for them to operate under the BSC.

BSC Panel Elections

The BSC Panel elections will be held in 2012/13. We will put in place mechanisms to help Parties more easily engage in this important process to determine the industry Panel members for the next two years.

Improving Data Services to BSC Parties

We firmly believe that there are opportunities to improve the timeliness and availability of data to BSC Parties. We're committed to working with our customers to improve these data services and, based on a cohesive web strategy, rationalising our data channels and enhancing the BSC Portal.

To protect the value of BSC Parties' data we will be reviewing the underlying pricing methodology covering the provision of data to non-BSC Parties to ensure that the prices are set at a level that's appropriate and reflective of the costs and efforts of making the data available and that users of BSC Parties' data pay a fair and economic price. We recognise that there may be consumers as well as energy service providers that may wish to access and use data and we will be receptive to any requests relating to data provision, but only where there is a benefit to Parties.

As we develop our thoughts in this area we will come forward with specific propositions to seek the views of BSC Parties.

Where necessary we will seek to suggest appropriate BSC Modifications be raised to give Parties comfort and oversight that any alternative data service arrangements are within our vires and better facilitate the BSC objectives.

Support to Significant Code Reviews (SCRs)

In November 2011 Ofgem issued a consultation seeking views on whether to conduct a Significant Code Review (SCR) addressing electricity cash-out and inviting interested parties to comment on the appropriate approach to improving electricity cash-out and the scope of a potential SCR.

The cash-out arrangements are a significant component of the wholesale electricity trading arrangements and sitting within the BSC, ELEXON has extensive experience in the pricing arrangements.

As the body that calculates, stores and reports on the data items that make up the imbalance price calculation we're uniquely placed to provide the support and data analysis services that will be required, should consultation responses indicate that an SCR should progress; this is consistent with the role that ELEXON has performed in the past.

Europe

Developments in Europe have the potential to significantly impact the existing BSC arrangements. At the extreme end of options currently being considered are harmonising: Gate Closure, Settlement Period durations, imbalance settlement and pricing; and merging Balancing Markets. We will continue to monitor European legislative changes and how these might impact the existing BSC arrangements. We will use this information to support the assessment of BSC modifications against the new Applicable BSC Objective requiring changes to be assessed for 'compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or Agency'.

There are two documents in particular, currently in development, which are most relevant to the BSC and ELEXON which we will track:

- the Balancing Network Code; and
- the "Comitology Guidelines on Fundamental Electricity Data Transparency".

Smart Metering

It is crucial for us to continue to engage with the DECC Smart Metering Implementation Programme (SMIP) to ensure that the central smart regime is set up to succeed and can support the existing arrangements. It is equally important that we understand the developments emerging from the SMIP in order to appreciate the potential impact on settlement. These activities are quite separate to whether or not we participate in the Data and Communications Company (DCC) tender process in 2012. We continue to receive very positive feedback from the SMIP on the value of our contributions.

The SMIP is currently in the Foundation Phase which is planned to run to Q1 of the financial year 2014/15 and is focussed on creating a solid basis for the mass rollout. Using the published milestones, the progress of the Programme can be split into three general phases:

- establishing the framework and appointing the new central bodies (during 2012 to 13);
- implementing the framework (from 2012 to 2014);
- operating the framework and mass roll out (from 2014 to 2019).

How are we preparing the BSC for smart?

Critically we must prepare the BSC for the smart arrangements and ensure the Settlement and in particular profiling arrangements remain fit for purpose. Areas where our support is necessary include:

- Establishing the smart metering technical specifications and the relationship with the BSC metering requirements;
- Establishing the regulatory and commercial regime;
- Ensuring business readiness across the industry.

Priority 2 – Drive efficiencies and savings in our operational business

We always aim to create additional value for our customers by improving and enhancing our services and continuing to drive down costs where sensible. In the current economic climate we must focus more than ever on being efficient and increasing our value for money.

To meet this priority, we will continue to:

- promote controlled financial management;
- secure best value from our commercial relationships; and
- deliver innovation through partnership.

In collaboration with Logica, we successfully carried out an operational review of BPO Service levels resulting in a reduction from 155 to 40 service levels focused on critical services to our customers and introduction of a new service credit incentive mechanism to ensure root cause failures are addressed.

The benefits from these activities will be realised across the next Business Plan year.

Key efficiencies and savings achieved in 2011-12

During 2011 we outsourced the support and maintenance arrangements of our Funding Shares System and reviewed existing BPO processes to identify improvements. We streamlined the delivery of the Profiling Agent service, realising £2m of savings over the contract term. We also reviewed our assurance services and extended the existing partnerships with C&C Group and PwC, realising over £200k savings across the TAA, BSC Audit and Qualification Service Provider contracts.

Improving processes

We will build on the successful relationships we have developed with our service partners to enhance the delivery of BSC processes by ensuring identified improvements align with our operational and strategic objectives and clearly show benefits to our customers. We continue to assess whether we can automate, eliminate or outsource BSC processes where this can benefit our customers. We intend to progress business cases for improvements to the CRA, CDCA and ECVAA processes by the end of 2012/13, and will progress these into delivery where there are clear benefits to our customers.

Procurement

Our strong track record in procuring and managing contracts is reflected in feedback we have received in our 2011 customer survey. We'll continue to review how we procure our services and build on the successes identified in the Profile Administrator service. Where relevant, we will ensure that our future procurements contain the flexibility required to accommodate the rollout of smart metering and its impact on the BSC. We'll progress our procurement strategy for our major outsourced assurance services in 2012/13 so that we can achieve service benefits through these future competitive procurements.

Priority 3 – Improve the customer experience and develop richer customer relationships

We serve a diverse group of customers that includes electricity producers, suppliers, traders, National Grid, distribution network operators, regulatory and government agencies and consumer bodies.

The excellent feedback we received in our 2011 customer survey shows that we continue to make significant progress in meeting their needs and aspirations across a wide range of customer service measures. We will continue to balance these as effectively as possible and build upon our role as an independent critical friend.

During 2011 we implemented webinar facilities to enable customers to join some meetings over the internet. We established and embedded new opportunities for customers to engage with the BSC including the Cross Codes Forum, supported by National Grid as part of our ongoing role as a critical friend. We will also continue to provide a named contact for every customer via our highly valued Operational Support Manager (OSM) service.

The customer survey is a valuable source of feedback to us, we are listening and will be acting on this over the coming year. While our results around customer support are strong, there is always more we can do to improve.

To meet this priority we will:

- actively and consistently manage our stakeholder relationships with improved recording of stakeholder issues;
- better identify customers' needs and common problems through planned interaction and targeted communication;
- respond appropriately to customers' requests and requirements so that we use our resources most economically and effectively.

Customer Relationship Management and the OSM Service

We will continue to develop our relationship management to enable us to collect and use information about what our customers and stakeholders want and expect from

ELEXON. This will help us to better understand our customers' businesses and the individual challenges that they face. We will further improve the OSM service in 2012/13 by using this understanding to provide timely and relevant support to customers.

Further web development

Responding to feedback from the 2011 customer survey, we'll continue to deliver improvements in the speed and navigation of our web services. We will progress a web-strategy in 2012/13 that will streamline and enhance the services available through our web-channels, adding self-service where appropriate and enabling customers to further customise the information they receive from ELEXON to facilitate greater customer engagement. We'll also consider how we can offer more online services through our website to streamline some BSC operational processes.

Sharing our knowledge and expertise

We will provide opportunities for strategic engagement with our customers and stakeholders, including BSC Parties, Government and regulatory bodies, to help us understand the common industry problems, contribute to solving them, and to get more focussed feedback on our plans and strategy.

We'll continue to host and participate in industry events where stakeholders can share views and ideas on what's important to the industry and where we can contribute our expertise and knowledge.

Getting customers involved

We are always keen to engage more with our customers and we have developed a number of ways to interact with us. If you've not done so recently, visit our website and see what we have been up to or talk to one of our many experts whose details are provided in the subject specific pages.

Remember you can keep track of industry meetings and sign up for training and educational events through our website. Also customers can ensure they are signed up to receive the updates you want to hear about.

Visit us at <http://www.elexon.co.uk>

Priority 4 – Develop our services and adapt our business to address industry challenges

The energy industry is evolving and we need to ensure the BSC and ELEXON are fit for purpose for any developments to the wholesale and retail energy markets. This year we have proven ourselves as trusted expert advisors to industry, government and regulatory bodies by developing thought pieces, providing support to the Smart Metering Implementation Programme and Smarter Markets. We have made great progress on understanding the roadmap for settlement through our work with industry groups. We are encouraged by the advancement of the robust debate on our governance and will continue to work with industry. Our focus will be to implement the changes during 2012 to allow us to deliver against our vision.

Market Evolution

More than ever, the pace of change within our industry is progressing at an increasing rate and we believe that ELEXON is perfectly placed and has a key role to play in supporting industry, Government and the regulator in identifying new and innovative ways to implement Government's policy objectives quickly, efficiently and with the least cost and impact to the consumer.

We plan to undertake a key role in supporting Government in designing, delivering and implementing new policy mechanisms for example, those arising from Electricity Market Reform (EMR), Smart Metering and changes emerging from EU developments. We will do this

Key Activities to support Priority 4

To meet this priority we will:

- Build upon our success
- Assess the opportunities arising from the introduction of smart metering, EU developments and Energy Market Reforms;
- Proactively position ourselves as the industry's preferred provider of central arrangements; and
- Implement the governance to enable these strategic developments.

where this clearly aligns with our strategy and where there is a benefit to our customers.

We're encouraged by DECC's review of its delivery landscape and the desire to improve its delivery capability in the context of the Government's "Red Tape Challenge" through simplifying, and in the longer term consolidating, the central market arrangements.

Building on our successes

In October 2011, following a competitive process DECC awarded ELEXON a four year contract to design, implement and operate the Warm Home Discount Scheme reconciliation mechanism requiring us to calculate the reconciliation liabilities of each supplier in the scheme and manage the resulting funds transfer. BSC Parties will benefit because we are able to offset the income received from DECC for the service, against BSC Party charges.

The assumption that we can make the settlement infrastructure work harder and flex our expertise sits at the very heart of our business strategy and it has been truly rewarding to see this vision realised. We have been very encouraged by indications that there is a strong desire within DECC for us to feature in their delivery landscape.

Our continued participation in schemes such as the Warm Homes Discount Scheme, but also in other areas, will:

- increase the level of competition in the provision of central services;
- bring commercial pressures to bear;
- avoid the need for industry to fund the development and implementation of duplicate central systems;
- drive out efficiencies and thus provide for lower cost solutions;
- ultimately, lower costs to consumers.

This is not to say that ELEXON should pursue and deliver all new government policy initiatives. We will, as we do now, fully evaluate each opportunity to ensure that it is appropriate, fits with ELEXON's key skills and capabilities, and can support the appropriate business case.

How ELEXON can contribute to Electricity Market Reform (EMR)

We believe that we can add value, reduce costs for the industry and ultimately the consumer if the scope of the BSC is extended to cover the administration and settlement of Feed-in Tariff Contract for Differences and the Capacity Mechanism (two key elements of the EMR proposals) by building on our existing core settlement systems, processes and expertise:

- we have a proven track record in the design and implementation of complex settlement systems;
- we have extensive experience in data handling, administration, settlement credit management and monitoring, assurance and funds transfer;
- we hold data that will be required for the settlement of Feed-in Tariffs and for monitoring generator/demand performance as part of any capacity mechanism.

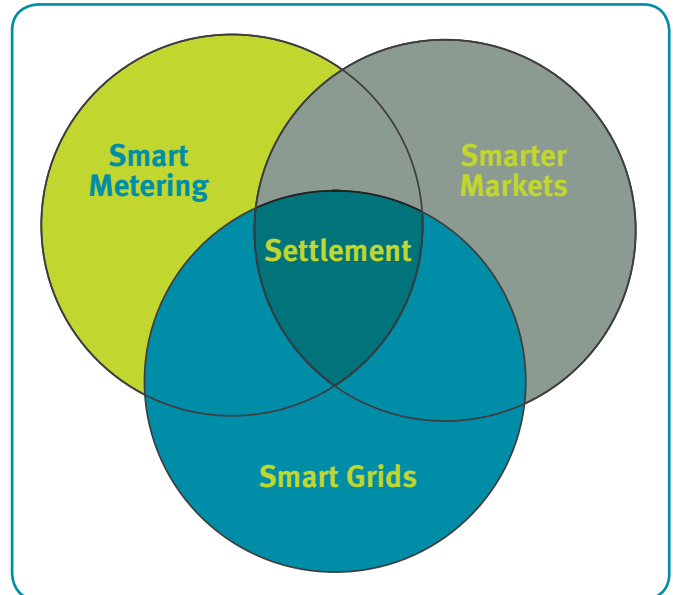
Case Study: Electricity Market Reform

The major new policies being introduced as part of the Electricity Market Reform (EMR) will require specific delivery arrangements to be established and implemented.

Smart Activities

Understanding the impact of Smart Metering upon Settlement and the BSC and supporting the DECC SMIP is within Strategic Priority 1. However, the smart agenda has broadened and smarter markets and smart grids now sit alongside smart metering. Currently Smarter Markets and Smart Grids have a minimal impact on the BSC and they are therefore activities within Strategic Priority 4 but as 2012/13 progresses and their impact is better understood, they are likely to become part of Strategic Priority 1. We will support initiatives and track developments during 2012.

Whether to submit a bid as part of the DCC tender process has yet to be decided, we recognise it is not possible to make a bid until our governance is agreed to be changed.



a) Smarter Markets

Ofgem launched its Smarter Markets initiative in September 2011. It is focussed on identifying how smart metering, once installed, may be used to enhance the customer experience. Potential areas include: facilitating Demand Side Response; supporting innovative Time of Use Tariffs; speeding up the Change of Supplier Processes; Code consolidation; and simplifying the Market Entry Processes. We have been championing a number of these initiatives, through our thought pieces. We will contribute by identifying potential solutions and implementing agreed ones.

The Ofgem Programme intends to complete its investigations by June 2012 and thereafter to initiate a work programme. This will need to integrate with the work of the SMIP and we anticipate solutions being delivered at the end of the three year plan period at the earliest. Activity across the plan period is therefore likely to focus on policy design with a limited amount of solution design in the later years.

b) Smart Grids

Smart Grids are emerging from the shadows of smart metering and comprise the broad range of techniques that will be used to address the challenges that will increasingly be placed on the distribution networks. These are longer term activities and are driven by factors such as the need to support increased electricity usage (e.g. electric vehicles and heat pumps) and the need to accommodate distributed and intermittent generation (e.g. photovoltaic arrays and wind turbines).

Innovative work in this field is being stimulated by initiatives such as the Low Carbon Network Fund and will be further enhanced by the change to RIIO regulation for the Distribution Companies. Amongst the portfolio of solutions that will need to be tested and applied are ones involving metered data and markets. We have already been requested to provide our expertise both in data and market design. We envisage further support being requested across the period including limited analysis and contribution to working groups.

Reforming our corporate structure and governance

Since we consulted on this year's Business Strategy there has been broad acknowledgement that ELEXON's current corporate structure, governance and funding arrangements are not an appropriate platform for the company to undertake all new activities in the future.

We are encouraged by the responses of BSC parties in the form of Standing Issue 40 and of the Regulator which have stimulated extensive debate on this issue.

In its letter of 29 July 2011, accompanying the publication of the Morse Report², Ofgem acknowledged that **“the BSC arrangements have worked well to date, but recognise that policy aims such as the move to a low carbon economy will increasingly present challenges to the market arrangements in the coming years. ELEXON has an important role in helping industry meet those challenges”**.

In its recently launched consultation on the potential expansion of our role³ the context of smart metering, Ofgem further recognise that ELEXON's extensive experience in settlement, procurement and contract management could be brought to bear in smart metering opportunities and expressed the view that consumers may therefore benefit from ELEXON's participation in the competition to undertake the DCC role.

However, Ofgem also recognise the challenge of realising these consumer benefits without placing any undue risk on the continued operation of the BSC arrangements and we look forward to the results of Ofgem's consultation and moving to a set of governance arrangements that will allow ELEXON's expertise and capabilities to be used to greater effect for the benefit of all stakeholders in the energy sector.

² [Extending the vires of ELEXON Limited](#)

³ http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Elexon_Open_Letter.pdf

Priority 5 – Invest in our people for the benefit of our industry

We are fortunate enough to operate in a dynamic industry and to be the organisation that sits at such a crucial juncture between the retail and wholesale markets. We have maintained our standing in the industry through providing consistent and robust support from our strongest asset base, our people.

Our customer survey bore out the strong message that we are perceived as expert and professional and this is augmented through the feedback that we have excellent communication with customers. Recognising the breadth and depth of our skills and experience we are proud that both DECC and Ofgem have sought our expert support in understanding how the existing arrangements work and also to identify the impacts of market changes, whether this be in the smart arena or wider market reforms.

It is critical therefore that we continue to ensure that we have the right strategy to retain our existing people and recruit and train new staff to deliver the professional service that our customers expect. Recognising the current economic environment, we are committed to doing this through innovative measures and therefore will not seek to increase the training budget which we reduced substantially last year.

Staff are encouraged to further develop their own technical knowledge from our wealth of in house industry expertise and we promote self development through regular lunchtime training. We will also investigate the potential for on line learning to assist in self development. Separately we will invest in developing coaching skills for our managers.

We will continue to undertake our annual staff survey and use the feedback and suggestions to develop our approach to staff engagement to position ourselves as the employer of choice. We will assess staff policies to ensure they remain fit for purpose for today's workforce.

We will continue with these activities throughout the next year to develop these initiatives for the benefit of both our staff and ultimately our customers.

Tracking our Progress

We recognise the importance of measuring and reporting on our performance. We use a number of performance indicators to do this and we focus on:

- Customer perception of the value for money we represent (Customer Survey)
- Customer satisfaction across a wide range of service attributes (Customer Survey)
- Contracted costs
- Operational costs
- Cost and speed of change to BSC systems
- Comparison with other industry organisations

We publish this data in different formats, including our annual Business Plan, our quarterly and annual reports and specific publications around our customer survey results.

We provide a progress update against the Business Plan within our half year report.

During 2011 we developed specific KPIs to support the Code Administrators' Code of Practice requirements. These are published within the [Change Report](#) that is submitted monthly to the BSC Panel.

Key staff engagement work

This year we have focussed on a number of staff engagement pieces, including collective in house training and workshops. We have developed a shared set of values the business has collectively agreed and we have brought the business together through short sharp 'One ELEXON' days to share in our successes and common goals. We have launched the 'Great Place to Work Initiative' which allows staff to take ownership for driving change and developing concepts for team building, greater integration and knowledge sharing across the business. We also established leadership development initiatives for the future leaders of ELEXON and succession planning. A number of staff have been involved in 360 feedback to improve their understanding of their own performance.

Budget

Overview

This document details the budgeted costs for 2012/13 in support of our strategy, as laid out in the strategy section of this Business Plan. We believe this budget enables us to deliver the five strategic priorities identified in our Business Plan, particularly around improving customer experience and developing richer customer relationships, developing our services and adapting our business to address wider industry challenges.

In addition to regular activity we have highlighted the costs for exceptional items, and explain variances against current levels, as detailed in the 2011/12 forecast and budget. It should be noted that we started the budget process in October, so the comparison for the full year outturn for 2011/12 is based on the September 2011 forecast.

We continue to deliver savings in our Contracted costs, through robust and rigorous contract and service management and re-procurement processes, which is evidenced in this budget. Some aspects however are variable and driven by demand from industry. Where this is the case, we have identified and explained these elements in this document. Similarly, Demand Led costs are, by their very nature, driven by the industry. The control we have is in ensuring that change is delivered in the most cost effective and efficient manner. These costs are therefore an estimate of the expected cost of change to the BSC for the coming year. Strict governance and controls are in place to ensure that any under spend in this area is returned to parties, as has been the case throughout our 10 year history.

The more discretionary areas of spend for us are analysed within our Operational costs. We believe that this budget sets these costs at a level which is

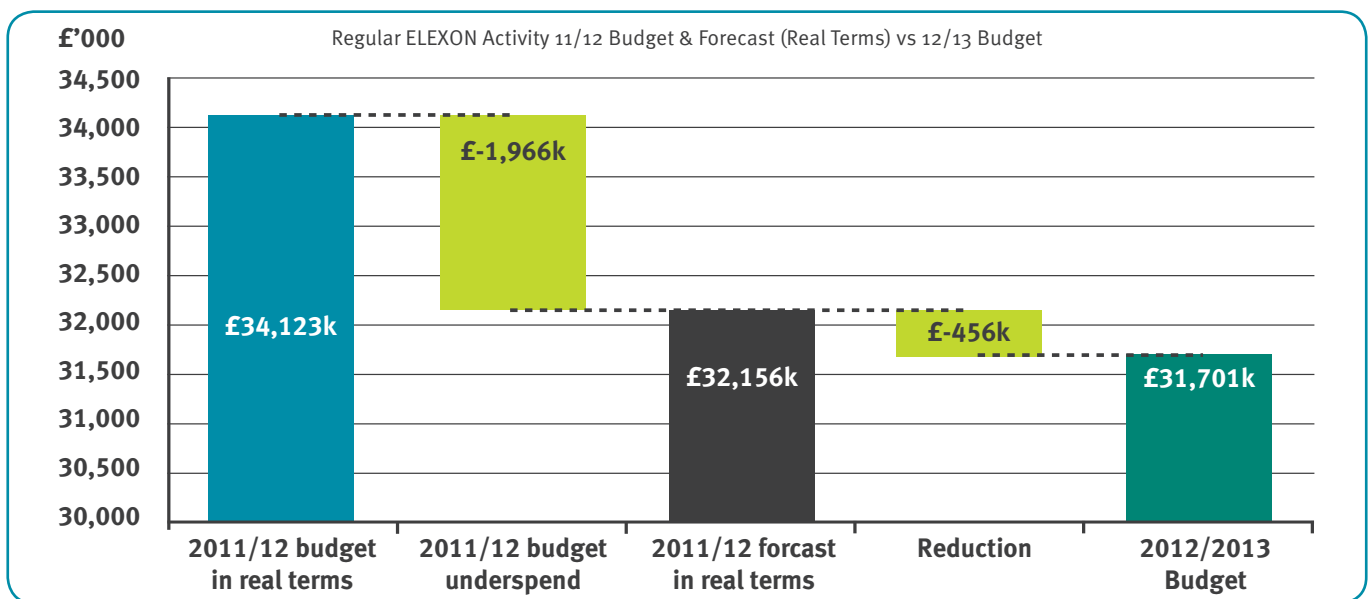
Table 1 Budget Summary

Item	Year to March				
	2012 Budget £m	2012 Forecast £m	2013 Budget £m	2014 Projection £m	2015 Projection £m
ELEXON Operational	17.2	16.0	16.0	16.2	16.7
Demand Led	1.4	1.0	1.5	1.6	1.6
Contracted	14.0	13.6	14.2	13.9	13.2
Total Regular Activity	32.5	30.6	31.7	31.6	31.4
Market Development	3.0	1.0	3.0	1.3	1.0
Overall Total	35.5	31.6	34.7	32.8	32.4

appropriate, but also challenging for the year ahead, and delivers value for money to our stakeholders. The budget for this category has reduced by £0.1m (0.6%) and by £1.3m (7.6%) respectively compared with our forecast and budget for 2011/12. After applying indexation based on RPI of 5%, these reductions rise to £0.9m (5.4%) and £2.1m (11.7%) in real terms.

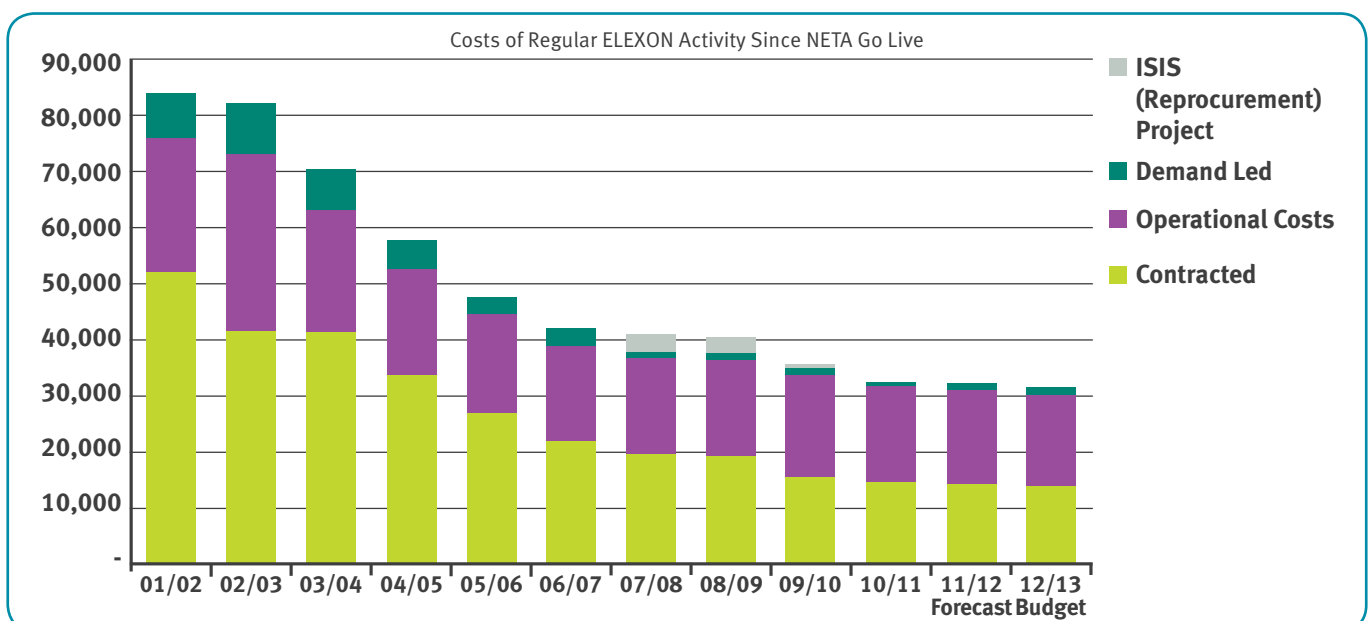
The budget for total regular ELEXON activity shows an increase of £1.1m (3.5%) against the forecast for 2011/12, but a reduction of £0.8m (2.5%) against the current year's budget. If we apply 5% RPI to the regular activity in the forecast and budget for 2011/12, real terms savings of £0.5m (1.4%) and of £2.4m (7.1%) respectively can be seen. This is demonstrated in chart 1.

Chart 1 Costs of Regular ELEXON Activity: 11/12 Budget and Forecast (in Real Terms) vs 12/13 Budget



Furthermore, Chart 2 details the total costs of regular ELEXON activity since NETA go-live in 2001/02 in real terms (applying April RPI of each year) and shows our continued success in driving efficiencies throughout the business year on year.

Chart 2 Costs of Regular ELEXON Activity Since NETA Go Live



ELEXON Operational

The costs for ELEXON Operational are further detailed in Table 2:

Table 2 ELEXON Operational

Item	Year to March				
	2012 Budget £'000	2012 Forecast £'000	2013 Budget £'000	2014 Projection £'000	2015 Projection £'000
People costs	10,993	9,994	9,747	9,943	10,373
Occupancy	2,843	2,877	3,005	3,068	3,134
Other Overheads	2,341	2,248	2,325	2,289	2,298
Consultancy Support	233	224	245	245	237
Legal and Statutory Audit	156	155	155	155	155
Income (net)	(55)	(140)	(77)	(81)	(81)
Projects	500	500	350	350	350
Contingency provided	155	155	200	200	200
Operational Total	17,166	16,012	15,950	16,170	16,667

Each of the line items are further analysed in the following sections.

People (Employee and Contractor) Costs

Table 3 ELEXON People Costs and Headcount

Item	Year to March				
	2012 Budget £'000	2012 Forecast £'000	2013 Budget £'000	2014 Projection £'000	2015 Projection £'000
Employee Costs	9,436	8,261	9,143	9,472	9,903
Contractors	557	1,179	604	471	469
Subtotal	9,993	9,440	9,747	9,943	10,373
Organisational Development	1,000	554	–	–	–
Total People Costs	10,993	9,994	9,747	9,943	10,373
Average Employee Headcount	119.6	107.5	117.6	116.8	116.8
Average Contractor Headcount	4.4	8.7	5.7	4.9	4.9
Average Total Headcount	124.0	116.1	123.4	121.7	121.7

Over the past 2 years we've sought to transform the organisation, to ensure that it is fit for purpose and best positioned to deliver on our mission and vision. As a consequence we've reduced headcount from around 145 in 2009/10. This has been achieved through restructuring areas of the business, as well as challenging the immediate need to recruit when vacancies arise. The current forecast headcount number of 116.1 represents "full time equivalents" (FTEs), which we believe is more representative of the cost, but does not therefore take account of vacancies that have not been filled through parts of the year. The budget for 2012/13 year of 123.4, again based on FTEs, is broadly in line with the budget set for the current year, and significantly below the levels seen prior to 2009/10. We believe this to be the optimum size in order to ensure the efficient and effective delivery of our obligations and strategy, in the most cost effective way.

In 2011/12 we submitted a budget that included £1m for organisational redevelopment. This was to enable us to perform the transformational work that was required in reshaping the organisation both for meeting contractual exit costs as well as costs incurred in bringing new talent into the business. We have already identified that some of this funding will not be required and have therefore reduced our forecast for 2011/12 and delivered this back to parties. This was a one-off cost, therefore we've not included a similar provision for 2012/13.

We currently operate two pension arrangements for the benefit of our employees. The NGC scheme, which was closed for new employees in 2006, and a Friends Life defined contribution scheme for anyone joining the organisation after that date. At the time of budgeting last year, we had yet to learn the outcome of the actuarial valuation of the NGC pension scheme, and therefore included a prudent, ring-fenced estimate in the budget for 2011/12. The results of the valuation were published in June 2011, the outcome of which was £500k below the worst case estimate in relation to deficiency repair and employer's contributions. This has since been released through the forecast and returned to parties. Our budget for the NGC pension costs when comparing the 2012/13 budget with that of 2011/12 are therefore lower by £500k.

Taking the above material changes into consideration it can be seen that compared to the enduring costs of £9,493k identified in the 2011/12 budget, 2012/13 budget has increased marginally by £254k, or 2.7%. The 2011/12 forecast outturn for enduring costs is currently expected to be £9,440k; however this is based on a FTE of 116.1, mainly due to delays in recruitment. As already stated, next year we are budgeting to achieve optimum headcount of 123.4, which is 6.3% higher than the current year's forecast number. Despite this, the increase in cost for 2012/13 is only 3.3%, or £307k, above the 2011/12 forecast.

We manage retention and turnover within the organisation so that we are able to continue to meet our obligations. We do this through continuously benchmarking and assessing the appropriateness of our reward strategy. We are mindful of our need to manage and mitigate, where possible, operational risk while continuing to deliver value for money to our customers. We have budgeted based on known headcount and salaries by function, all of which have been kept static for the entire year. We conduct an annual review each July, and if considered appropriate, and following discussions with our Board, uplift salaries from that date. Full consideration is taken of indexation as well as conditions and trends in our sector, as well as the wider economy before any proposal is made. We also periodically incentivise employees by recognising a number of significant contributions in the year through the award of ex-gratia bonuses. To allow for all of these potential costs, and in recognition that recruiting staff to fill vacancies created through natural turnover will sometimes require a modest uplift in salary, we have included an amount of £299k in the 2012/13 budget.

We only use contractors where we have a short term need, or it is considered more cost effective for the organisation. We endeavour to replace contractors with permanent employees once we have identified that the requirement is an enduring one. We continue to take this approach, and as a consequence the budget demonstrates a reduction of £575k on contractors.

Occupancy

The occupancy cost for 2012/13, which includes not only rent and rates but also maintenance, utility and service charges, is budgeted to be £3,005k, some £128k above current year forecast. The changes in assumptions and points to note are as follows:

- The current Rating List from Camden Council, effective from 1 April 2010 until 31 March 2015 has shown an increase of almost 72% on the rateable value of ELEXON's premises, from £1,030k to £1,770k. The government phasing out transitional relief gives rise to an uplift of £77k in 2012/13. An inflation rate of 5% has also been applied to our base liability which gives rise to a further increase of £39k.
- The lease of our premises will be up for another review in August 2012. The market research conducted by our property advisor suggests a very high probability that we will be able to negotiate our rent to remain at the current level. Therefore, we have kept our 2012/13 budget consistent with the 2011/12 expected outturn.
- Our electricity is a pass through cost from our landlord. We've been advised that the unit price will increase by 29% in the new utility contract that the landlord re-procured on behalf of all tenants. This has contributed to a further increase of £10k in our 2012/13 occupancy budget.

Other Overheads

Other Overheads is further subdivided within our financial reporting. Table 4 below presents these sub-categories and the variance against current year forecast and budget:

Table 4 Other Overheads

Item	Year to March				
	2012 Budget £'000	2012 Forecast £'000	2013 Budget £'000	2014 Projection £'000	2015 Projection £'000
Payroll Related Costs	22	22	23	23	23
Training	242	314	242	242	242
Recruiting	185	185	186	186	186
Staff Welfare	173	176	189	189	189
Travel & Subsistence	137	108	123	127	131
Office Expenses	499	439	549	510	496
Telephone	87	85	90	94	99
IT/Computers	540	519	510	504	525
General Admin	244	225	223	223	218
New Development	179	157	175	175	175
Bank Charges and Interest	34	15	15	15	15
Other Overheads	2,341	2,248	2,325	2,289	2,298

The changes that give rise to the above variances are:

- **Payroll Related Costs** – we operate an outsourced model for the provision of payroll services. This line also includes charges levied by the Electricity Pension Administrator. We expect these costs to remain static for the coming year.
- **Training** – as part of the staff engagement program in 2011/12, we identified future leaders and key personnel within the organisation, and arranged for them to take part in a tailored leadership program. We are seeing considerable business benefits from this exercise, as evidenced in our recent customer survey results and employee opinion survey, and consequently see advantages in repeating this exercise going forward. However by structuring this as an annual program, we expect next year's number of delegates to be on a smaller scale, which would result in a reduction of £72k in training compared with current year.
- **Recruitment** – we have seen increased activity in our sector, and as a consequence, have experienced a rise in staff turnover over the past twelve months. We are presently recruiting to fill certain vacancies in the business, some of which may fall into 2012/13. While we endeavour to contain turnover at an appropriate level, we are mindful that the current trend may continue in the short to medium term. We have therefore maintained next year's budget in line with the 2011/12 forecast.
- **Staff Welfare** – this includes provision for a number of employee related health benefits, such as health checks, counselling and medical insurance, as well as certain employee engagement activities. We have pursued a more focused approach to Corporate Social Responsibility; the costs associated with this are also included here. By their very nature, the majority of these costs are driven by headcount, which is why we have budgeted for a slight uplift of £13k when compared with the 2011/12 forecast.
- **Travel and Subsistence** – we will be looking to build on the successes of our recent Customer Survey, continue to improve customer experience and develop richer customer relationships. We therefore plan to deliver enhanced support by increasing customer visits compared to 2011/12. We have therefore budgeted for a modest increase of £16k for 2012/13.
- **Office Expenses** – this category captures a variety of general administrative costs, such as insurance, catering (for external meetings) and office cleaning, all of which we expect to be consistent with current year. The largest class of cost here is however the depreciation charge on our fixed assets. During this year and next we will be looking to bring our IT desktop solution up to date, having deferred this last year, and following a number of years of modest investment. This will of course give rise to an increase in depreciation, and is the reason for the majority of this uplift from current forecast.
- **Telephone** – we anticipate a minor increase in cost in the coming year for both telephone maintenance and call charges.
- **IT/Computers** – this includes infrastructure support, as well as software licence and maintenance costs for our internal systems. We expect to achieve a slight reduction of £9k in this area from the 2011/12 forecast. This is mainly attributable to savings driven out of the successful re-negotiation of the web maintenance & support contract, partially offset by the cost of a planned upgrade to our accounting system. The latter being a necessity to ensure we keep it in line with the latest supported version.
- **General Admin** – this captures the costs of publications and subscriptions, however the most material area of spend here is in relation to expenses for meetings and conferences, which is wholly in support of the Panel and its sub-committees. We don't foresee any substantial changes in 2012/13 and have therefore included a budget based on the run rate of our current year forecast.

- **New Development** – the increase of £18k in new development is mainly driven by sponsorship of external events to increase awareness of ELEXON and our capabilities; an activity that has successfully contributed this year to DECC seeking out our views on e.g. EMR, and industry generally recognising that we have a valid opinion on (non policy) matters.
- **Bank Charges and Interest** – through more efficient internal payment processing, we've managed to significantly reduce these costs in percentage terms, and we have therefore set a figure well below that of the 2011/12 budget, and in line with the current forecast.
- As a consequence of the review of our Shared Services (support) functions, we've been successful in delivering a further reduction in headcount. We are now far leaner in these areas, but are committed to ensuring we maintain the high level of service to both our internal and external customers. In order to deliver on this, we've used a small proportion, £28k, of the savings achieved to allow for additional support to be brought in if necessary at times of peak workload.
- We'd like to further engage with our stakeholders next year by conducting an additional survey, costing £10k, to explore possible growth services.
- To continue our drive towards business excellence, and to ensure we are always aligned with best practice, we are currently conducting a one-off exercise in preparation for CIPS accreditation. This additional cost of £24k won't need to be incurred again in 2012/13.

Consultancy support

Over the past 2 years we've sought to right-size the organisation; reducing headcount where possible, whilst protecting the core and maintaining the high quality of service, and buying in specialist consultancy as and when it is required and appropriate. We believe this approach to not only be more efficient and economic, but also more effective. The overall budget we've set for consultancy support in 2012/13 shows an increase of £21k against current year forecast largely due to this approach, which we know to be more than offset by savings in people costs. We use consultants in a number of areas where it would not be financially viable to maintain full time expertise within the organisation; those contributing to this variance are as follows:

- We recognise that we will require additional assistance in preparation for the negotiations for our rent review in July 2012, and have included an additional £8k to allow for this.

Legal, Litigation and Statutory Audit

As with consultancy support, it is sometimes necessary for us to buy-in specialist legal advice. We've maintained the budget for this, as well as that for our annual statutory financial audit, at the same level as both the 2011/12 budget and forecast.

Income

Assumptions around office hire and interest incomes remain consistent with current trends seen in our 2011/12 forecast, however we do anticipate minor reductions in training income and accession fees of around £5k in total. But the bulk of this variance is attributable to the nature and the timing of revenues for the delivery of the Warm Homes Reconciliation Service – in 2011/12 we recovered the costs of implementation, whereas going forward we will be receiving income based on the annual delivery of the service.

Projects & Capital Expenditures

Historically we've capped the budget for internal systems improvement projects at £500k. At present we're exploring the business case around an outsourced IT services operating model. We recognise that the outcome of this could significantly reduce our need to incur further internal costs in improving our in-house systems.

As a result, we've set a reduced project budget of £350k, which represents 1.1% of total regular costs. A significant element of this budget is earmarked for standardising and consolidating various internal applications to drive down future maintenance and support costs. The capital expenditure requirements related to each initiative and the incidental replacement of normal wear and tear of office equipment equate to £150k, the depreciation of which is included in our overheads section. We continue to ensure that all initiatives are supported by a robust business case, demonstrating economic and/or efficiency benefits, before any funding is released.

Contingency

As far as possible, we've budgeted on known or expected levels of activity. Actual outturn will of course be different, and any under spend will continue to be passed back to parties. In recognition that costs could also be higher in some areas, and in order to be able to manage this effectively, a contingency of £200k has been included, which is consistent with the approach taken in previous years. The main areas we've identified as potentially requiring some contingency are rent review, major unplanned office maintenance incidents and recruitment delays spilling into next year. Our approach remains that we assess the financial impact as well as the probability, and set the contingency accordingly.

Demand Led

Table 5 ELEXON Demand Led

Item	Year to March				
	2012 Budget £'000	2012 Forecast £'000	2013 Budget £'000	2014 Projection £'000	2015 Projection £'000
Impact Assessment – AMD	24	24	24	24	24
Impact Assessment – BSC SA	73	37	38	38	38
Modification Proposals	186	146	150	150	150
Change Proposals	5	5	5	5	5
BSC Systems Releases	750	450	700	750	750
Strategic Development	340	340	500	500	500
Panel Committee Projects	–	–	100	100	100
Total Demand Led	1,379	1,002	1,517	1,567	1,567

As mentioned in the overview at the start of this document, this area of our budget is entirely demand driven, and is set to ensure that we are appropriately funded in order to be able to implement changes requested by industry. We continue to ensure that all change is delivered in the most cost effective and efficient way. The strict governance and controls around how these monies are spent ensures that any residue is released back to parties, and cannot be utilised for other activities. This approach is consistent with prior years, and we feel is the most effective and efficient way of managing change. As a result of the approach we take, and due to the contingent nature of the Demand Led budget, the variance against forecast can seem quite substantial. The variance for 2012/13 is £515k higher than the current year forecast, and is a £138k uplift compared with the 2011/12 budget. The variance and the main assumptions can be further explained as follow:-

- We've reduced the current year modification proposal forecast from a budget of £186k to just under £150k and we've carried this reduction forward in to our budget of £150k for 2012/13. This is a reasonable estimate based on the level of change over the last few years. However this figure excludes any additional work (and potentially high costs) which may be incurred as a result of:
 - EMR; or
 - extensive changes which may arise from the proposed Significant Code Review of cash out; or
 - additional external legal advice in relation to modifications arising from the vires and governance consultation.
- The budget for systems releases has been set at £700k, a £50k reduction compared to the 2011/12 budget. It should be noted that the current year forecast is relatively low due to the fact that the June 2011 release was small and the planned February 2012 release is also expected to be modest.
- In the recent past, we've experienced additions to our cost base resulting from actions requested by Panel committees. If all other costs are in line with budget, then there is the potential that these would either need to be rejected, or further funding requested from parties. To ensure that the approach we take is in line with other demand driven activity and to enable an efficient and effective process is in place we've budgeted for an additional £100k for such Panel committee requests, For example this may cover costs for changes to sample size for profiling, UMS Phase 2 activities and witness testing for BT's swop-out of meter cabling from copper to fibre.
- As part of the new AM/Dev service provider contract which started in April 2010, we committed to explore strategic developments which would deliver business benefits to our customers. We've identified a number of areas that we intend to explore further and we've increased the strategic development projects budget from £340k in current year to £500k in 2012/13 to allow for this. We recognise that due to financial and resource constraints, not all of the initiatives will be deliverable. As with the approach to be taken for internal improvement projects, any spend will have a robust business case before any funds are released. It should be noted therefore that any initiatives above the £500k budgeted would need to be funded from savings elsewhere in the business or from a request for additional funding.

Contracted

Table 6 Contracted

Item	Year to March				
	2012 Budget £'000	2012 Forecast £'000	2013 Budget £'000	2014 Projection £'000	2015 Projection £'000
Central Volume Allocation (CVA)	7,117	7,044	6,694	6,324	6,496
SVAA	1,359	1,350	1,270	1,186	1,217
DTS	738	774	940	987	1,036
Profiling	335	443	627	453	147
Software Support	291	219	441	219	269
Teleswitch	81	79	81	86	90
Qualification	250	332	432	428	381
Supplier Volume Allocation (SVA)	3,054	3,196	3,790	3,358	3,139
Fund Administration Agent	1,376	1,356	1,285	1,203	1,235
Operational Audit	1,425	1,277	1,450	2,135	1,405
Technical Assurance	627	395	641	442	496
Other Contracted Costs	354	344	374	389	405
Total Contracted	13,953	13,611	14,234	13,851	13,177

Contracted expenditure relates to the cost of our BSC Agents (e.g. CRA, FAA, etc.) and contracted service providers (e.g. for Profiling, Qualification Services etc.). These are the main costs we incur in delivering the BSC arrangements and are mainly fixed costs. Our procurement strategy seeks to deliver better terms and lower costs as contracts fall due for re-procurement. The successful re-procurement of the main Central Volume Allocation (CVA), Supplier Volume Allocation (SVA) and Funds Administration Agent (FAA) contracts (new BSC Services Agreement contract) is one good example. Where there is a contractual obligation, we have increased Contracted costs in line with relevant indices.

The budget for contracted costs demonstrates further year on year savings, particularly in relation to the BPO contract and the application management element of the AM/Dev contract. If we look at the fixed element of these costs, it can be seen that we have been successful in reducing this from £11.5m, in the 2011/12 forecast, to £11.2m for the coming year. The indexation applied year on year is a mix of Computer Economics Limited⁴ CEL and RPI, which we've predicted to be 3.5% and 5% respectively. If we apply a blended indexation rate of 4.25% for the purposes of comparison, this reduction increases to £0.8m, or 6.7%, in real terms. However, for the coming year these savings are more than offset by the variable and non-regular activity that our service providers are required to carry out:-

- This year we commissioned the technology refresh project of the CVA, SVA & FAA systems in at a cost of £575k. Next year the NHHDA/EAACA system (categorised as "Software Support" in Table 6) and the central systems (Windows server, Tibco and the HP-UX 11i v3 patch set) will also need to undergo a technology refresh. The total cost for this work will be £545k, giving rise to a reduction of £30k.
- The SVG have requested an increase in scope to the UMS work being undertaken. In order to meet this, we've needed to increase the Profiling budget by £184k.
- The cost of DTS is entirely variable and driven by the volume of messaging. We anticipate this will increase in 2012/13, and have therefore provided for an additional £45k for this service. Another £121k increase is driven by the 20% price increase to the Traffic Usage Charge as a result of the annual DTS cost review.
- Similarly, Qualification is a variable cost and is driven by the number of suppliers entering the market. Based on our knowledge of organisations who are in the process of applying to enter the market, as well as those who've expressed interest in participating, we expect this demand to increase in the coming year. Consequently the 2012/13 budget includes an uplift of some £73k to account for this.
- We will see an increase in the scope of the Operational Audit next year. This, coupled with the anticipated increase in market participants, has led to an increase of £108k for the provision of this service.
- The cost for the Technical Assurance service is considerably below budget as we exercised the option to take a one year extension in the contract, and therefore did not incur the £250k exit management costs we had budgeted for 2011/12. Not only do we expect these to be incurred in the coming year, but we will also see an increase of £25k due to indexation.
- Next year we will need to begin the process of re-procuring the contracts of the Technical Assurance, the Operational Audit and the Qualification agents. We've therefore made provision for procurement, exit management and transition costs in this budget which has resulted in an increase of £310k.

⁴ <http://www.computereconomics.com>

Market Development

As described earlier, the energy industry is evolving and we need to ensure the BSC and ELEXON are fit for purpose for any developments to the wholesale and retail energy markets. Consequently we need to continue to evaluate the impact on the BSC of the introduction of smart metering, EU developments and Electricity Market Reform (EMR) as well as smart grids and smarter markets. Some of these developments may also represent opportunities for ELEXON to apply its expertise and experience to delivering such developments.

We have included an amount of £3m in the 2012/13 budget in this respect. This is consistent with the 2012/13 forecast contained in last year's Business Plan but now includes activities other than just Smart Metering, namely EMR, EU, Smart grids and Smarter Markets.

Currently Smart Grids, Smarter Markets, EMR and EU are resourced through some of our existing highly experienced personnel. As all these initiatives are at the initial stage of policy design, we have been able to contribute to shaping the future using limited internal resources and our efforts have been largely focused on understanding and explaining the implications on the BSC, identifying possible solutions and determining how the BSC will need to evolve. Our contribution is thus largely reliant on staff that are budgeted for within Operational Costs. This is also the case for 2012-13.

Whilst we will continue our use of internal resources, we recognise the need for external support. This includes matters such as commissioning supporting studies and undertaking impact analysis, as well as the costs of backfilling to enable the release of operational staff to contribute their skills and knowledge to these initiatives. Providing operational staff to support these emerging areas allows us to contribute experienced staff and helps spread the understanding of these emerging arrangements across the business. We believe that this model works well as it allows our experts to contribute strongly across the piece whilst recognising the periodic

need to draw on specialist external experts. This approach has been clearly demonstrated in 2011/12 through a variety of initiatives that include supporting the Smart Metering Implementation Programme business process work, working with industry to identify the evolutionary path for the non half hourly market, and contributing to the debate on the regulatory and commercial arrangements for the smart metering arrangements.

These activities drive much of the £3m provision we are proposing to maintain for 2012/13. During 2011/12 we have demonstrated our commitment to containing costs and that we do not treat budgets as a commitment to spend: we will maintain this discipline throughout 2012/13.

Any external expenditure in support of a formal application or bid for work arising from these initiatives would also be supported from the £3m. We are conscious of the need to continue to deliver our BSC obligations and we will not submit any application unless we are sure that bidding for and winning the role will not compromise our current BSC activities nor be contrary to our vires. This reflects the commitment and approach we initiated for Smart Metering in 2011/12. Thus it will be treated in a similar manner to demand led and we will follow the same robust governance as employed for the SMART budget in the current year. This will ensure that there is appropriate scrutiny of expenditure of these sums, that they will be ring-fenced and reviewed periodically, and any surplus arising from reforecast will be returned to industry at the appropriate time. Despite the recently launched Ofgem consultation regarding changing our governance entitled "Potential Expansion of the role of ELEXON" (in which Ofgem states that it is "in principle supportive of ELEXON's desire to diversify"), we have still included these costs in this 2012/13 budget as it is not certain that changes will be introduced nor the timing thereof. During 2012/13 we anticipate that opportunities will arise in both Smart Metering (i.e. the Data Communications Company and the Smart Energy

Code secretariat) and in support of Energy Market Reform. In both these areas we believe that ELEXON can provide strong technical propositions that are backed by unparalleled relevant experience, strong governance and in depth market knowledge. When this is married with our proven track record of delivery through partnership with commercially procured ‘best in breed’ service providers, we believe ELEXON can offer strong solutions and that our participation will enhance any competitive process and thereby benefit the market.

Consequential changes to the BSC arising from the current raft of government and regulatory initiatives will be progressed using the established change arrangements. Implementation of agreed Changes to the BSC systems and processes will accordingly be funded from Demand Led.

The allocation of the £3m across the different market developments is our best estimate with the values and the allocation being based on limited information regarding activities and their timings.

Smart Metering

We will continue to contribute to and monitor Smart metering developments and engage with the DECC Programme to ensure that the central smart regime is set up to succeed and that through the smart transition quality data will continue to flow into settlements from the 29 million domestic metering systems. We have received very positive feedback from SMIP on the value of our contributions and have shared our views and findings with the industry. Additionally we continue to evaluate the opportunity that the DCC and SEC Secretariat roles present. Across this combination of activities we have included an estimated amount of £1.8m for 2012-13. The bid costs relating to the DCC are especially prone to the approach adopted for any bid (e.g. do we pay for contractor support or do we partner, with each organisation bearing their own costs and risks). For the purposes of compiling a budget we have assumed that we would contract for support and thus the figures represent a worst case scenario. We have also assumed that the activity will take 7.5 months as opposed to the two quarters suggested by the SMIP and that closing things out and achieving DCC Go Live will take longer than envisaged. DCC and SEC related costs do not extend beyond 2012/13 as costs of implementing and operating the DCC service and the SEC Service will fall under the SEC and be carried by SEC users.

Table 7 Market Development

Market Development	2012/13	2013/14	2014/15
	£'000	£'000	£'000
SMART Metering	1,800	450	225
Smart Grids and Smarter Markets	400	400	400
EMR and EU	800	400	400
Total	3,000	1,250	1,025

Smart Grids and Smarter Markets

We are already contributing to discussions relating to Smart Grids and Smarter Markets. Certain aspects of smart grids will impact upon settlement (e.g. developing an active demand side, accommodating electric vehicle charging). Being experts in both data and market mechanisms we can contribute to identifying and delivering solutions and our views are already being sought. Similarly many of the areas identified within Ofgem's Smarter Markets initiative have settlement impacts (e.g. tariff innovation and change of supplier) and we have already championed improvements in these areas over several years. We look forward to working with Ofgem and industry to identify and deliver solutions and thereby improve the consumer experience.

Given the wide ranging but as yet uncertain scope of these activities (notably around the speed at which the smarter markets initiative will progress) we propose a budget of £400k for 2012/13. This would support some analysis, prototyping, creation of thought pieces, memberships of relevant groups (e.g. Smart Grids UK), participation in smart grid events and the backfilling previously described.

Electricity Market Reform and EU Initiatives

DECC is already discussing with us similarities between our existing processes and arrangements that may be required as part of the EMR delivery landscape. DECC is due to release more information on its vision for the EMR central arrangements at the turn of the year and it is therefore difficult to estimate budget requirements. Similarly with EU initiatives, it is uncertain the extent of activity we will need to undertake. We have proposed £800k across these two activities for studies analysis, thought pieces and backfill.

Costs associated with Changes to our Governance and Vires

None of the foregoing categories of costs of Operational, Demand Lead, Contracted or Market Development, contain funding associated with or arising from Ofgem's consultation on our vires. The type and level of costs will vary depending on the model to be implemented.

For example, in the contract model, costs will arise relating to both internal costs and those of external advisors as follows:

- Establishing the new service co and negotiating the new contract, plus management thereafter of the contract;
- Profit element to be included in the contract; and
- Additional costs associated particularly with a short duration contract.

In the subsidiary model costs will arise relating to both internal costs and those of external advisors as follows:

- Establishing the new HoldCo and enforcing the ring fence.

We are investigating the potential level of these costs.

Comparison of 2012/13 Annual Budget with 2011/12 Annual Budget

Table 8 Comparison of 2012/13 Budget with 2011/12 Budget

Item	Year to March		Difference £m	%
	2012 Budget £m	2013 Budget £m		
ELEXON Operational	17.17	15.95	1.22	7.1
Demand Led	1.38	1.52	(0.14)	(10.1)
Contracted	13.95	14.23	(0.28)	(2.0)
Total Regular ELEXON Activity	32.50	31.70	0.80	2.5
SMART	3.00	3.00	–	–
Overall Total	35.50	34.70	0.80	2.2

Comparison against estimate of 2011/12 outturn

Table 9 Comparison of 2012/13 Budget against 2011/12 Estimate

Item	Year to March		Difference £m	%
	2012 Projection £m	2013 Budget £m		
ELEXON Operational	16.01	15.95	0.06	0.4
Demand Led	1.00	1.52	(0.51)	(51.4)
Contracted	13.61	14.23	(0.62)	(4.6)
Total Regular ELEXON Activity	30.63	31.70	(1.08)	(3.5)
SMART	1.00	3.00	(2.00)	–
Overall Total	31.63	34.70	(3.08)	(9.7)

Charging Analysis

This section outlines how we expect to charge the budget to BSC Trading Parties. Table 10 contains charging proposals from Section D of the BSC. All of the charges presented in Table 10 exclude value added tax (VAT).

Table 10 Section D – Charging *

- **£500 Application Fee;**
- **Membership fee of £250 per month;**
- **CVA Metering System Monthly Charge of £50 per month. CVA BM Unit Monthly Charge (other than for Supplier BM Unit) of £100 per month (this charge is levied on each pair of BM units in the case of an exempt generator);**
- **For communication line and TIBCO charges, please refer to the ELEXON website;**
- **Notified Volume Charge per Gross Contract MWh at a rate of £0.0006/MWh;**
- **For all Base SVA BM Units a charge of £100 per month;**
- **SVA costs split:**
 - **50 percent of costs are paid by generators on basis of metered energy volumes;**
 - **a fixed fee of £0.7 per SVA Half Hourly Metering System;**
 - **remainder allocated on Suppliers Non Half Hourly MWh market share.**
- **All remaining costs split on basis of metered energy volumes.**

* These are based on the current charges and are consistent with last year's budget. They are subject to change following a periodic review approved by the Panel. Please refer to the BSC website for current rates.

Based on the information in Table 10 examples of charges to BSC Parties are provided.

First, the 2012/13 Annual Budget is set out in Table 11 below.

Table 11 Split of Costs

Assumed Split of Costs for 1 April 2012 to 31 March 2013	
SVA Costs	4.88
Other Costs	29.82
Total	34.70

Second, various assumptions about the size of the market are made. These are presented in Table 12.

Table 12 Market Assumptions

Market Assumptions	
Number of Trading Parties	224
Sales – Notified Contract Volumes (TWh)	1,127
Purchases – Notified Contract Volumes (TWh)	1,127
Generation (TWh)	298
Supply (TWh)	296
NHH Supply (TWh)	166
HH Supply (TWh)	130
CVA BM Units	565
SVA Base BM Units	70
SVA Additional BM Units	2
Data Line	59
Comms Software {5 users}	30
Comms Software {additional user}	0
CVA Metering Systems (MSIDs)	799
HH Supply (MSIDs)	117,405
PRS Supply (MSIDs)	29,568,715

Third, the charging regime from Section D of the BSC in Table 10 is then applied to costs in Table 11 based on the assumptions in Table 12. This gives the estimated charges (either specified charges or £/MWh fees) in Table 13.

Table 13 Expected Charges

Charge Item	BSC
Specified Charges	
CVA BM Units (£/month)	100
SVA Base BM Units (£/month)	100
SVA Additional BM Units (£/month)	100
Data Line – estimated average (£/month)	700
Comms Software – average quad2 processor (£/month)	1,080
Comms Software {additional user} (£/month)	22
Contract Traded (£/MWh)	0.0006
CVA Metering Systems (£/month)	50
Base Monthly Charge (£/month)	250
SVA	
HH SVA Ops (£/msid/month)	0.70
NHH SVA Ops (£/NHH MWh)	0.009
Gen Energy SVA (£/MWh)	0.008
Main Charges	
Energy fee (£/MWh)	0.04284

Table 14 Cost Recovery by Item

Charge Item	BSC	
	(£m)	% of Total
Specified Charges		
CVA BM Units	0.68	2.0%
SVA Base BM Units	0.08	0.2%
SVA Additional BM Units	0.00	0.0%
Data Line	0.50	1.4%
Comms Software (total)	0.39	1.1%
Contract Traded	1.58	4.5%
CVA Metering Systems	0.48	1.4%
Membership Fee	0.67	1.9%
SVA		
HH SVA Ops (£/msid/month)	0.99	2.8%
NHH SVA Ops (£/NHH MWh)	1.45	4.2%
Gen Energy SVA (£/MWh)	2.44	7.0%
Main Charges		
Energy fee (£/MWh)	25.44	73.3%
Total	34.70	100.0%

Section D4 of the BSC permits uneven recovery of costs from BSC Trading Parties to allow ELEXON to meet its cash flow requirements. However, ELEXON does not propose to use these arrangements in the forthcoming year. Instead it will charge BSC Parties the total costs identified in the Annual Budget, split equally across the months.

