

Draft Business Plan 2013/14



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BSCCo Business Plan 2013/14

Introduction

We are pleased to present the BSCCo (Balancing and Settlement Code Company) Business Strategy and Annual Budget for 2013/14.

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 2013.

How to respond

Please provide your response to victoria.moxham@elexon.co.uk. If you have any questions please contact Victoria at victoria.moxham@elexon.co.uk or 020 7380 4166.

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

2012 has been a busy year for BSCCo and for the industry we operate in. Under the Business Plan that we published twelve months ago we've been focussed on ensuring operational excellence in delivering the Balancing and Settlement arrangements whilst also scanning the horizon for industry changes that have the potential to impact the BSC. This year, more than ever before, we're conscious of the volume of change going on within the energy industry, and the impact that this is having on BSC parties. Where appropriate, we've been using our expertise to support BSC Parties through these changes whilst ensuring that the BSC arrangements are, and will continue to be, robust and fit for purpose in an evolving market.

In the context of such high levels of change we're particularly pleased with what we've achieved over the past year in line with the mission, vision and strategic priorities first introduced in the 2011/12 Business Plan. We're continuing to do more for less, offering better value to BSC Parties and, according to our most recent set of customer survey results, doing so with the highest levels of customer service ever. This is a great achievement, and one that the whole team has worked hard to achieve.

In our 2012/13 Business Plan, we sought to continue making progress against the mission and vision, improving our management of the BSC for the benefit of customers and delivering better value for money than ever before. Our intention was to deliver this against a backdrop of putting in place the governance arrangements to allow BSCCo to deliver more for the industry.

Although the industry around us is changing at an unprecedented rate, BSCCo has, for the past two years, been operating against a consistent Business Plan that focusses on delivering the core BSC whilst also making the most of our unique position at the centre of the industry to develop solutions to common industry problems. The BSCCo's mission and vision are still fit for purpose, so remain unchanged in our 2013/14 Business Plan. 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.

This is an exciting time for the energy industry. But amidst the dramatic changes going on around us, ELEXON remains committed to delivering the BSC consistently and robustly.



Chairman Andrew Pinder



Chief Executive Peter Haigh

Review of 2012/13¹

In 2012/13, we worked towards a strategy that was a continuation of the formula first put in place in our 2010/11 Business Strategy. For the second year running, we've been focusing on delivering the Balancing and Settlement arrangements, whilst also exhibiting a healthy level of curiosity for what's going on in the world around us. This curiosity has enabled us to understand the changes in our industry, so that we can support BSC Parties through those changes and so that we can develop the BSC Services to ensure that they're robust for the future.

For the past 12 months, we continued to focus our work around four strategic priorities:

- Actively managing and continually improving BSC services to ensure that we delivered in an efficient, effective 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.

In addition, to support our achievement of these four strategic priorities, the mission and vision, we've had a fifth priority in place:

- Investing in our people for the benefit of our industry.

As the backdrop to these priorities, our mission firmly places the BSC at the core of everything we do: To deliver the BSC effectively, efficiently and economically, to the benefit of our customers.

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

Delivering the BSC services sits at the centre of everything we do. It's vital that our customers have confidence in the core BSC systems and services that we provide. We strive to continually improve BSC services in order to deliver even better quality and value.

This year, we've continued to ensure the safe operation of the BSC by reviewing and updating key parameters and managing operational issues to reflect both current and future market conditions. We've actively managed defaulting Parties to minimise financial impacts on the rest of the industry. We've progressed a wide range of BSC Modifications and all BSC Releases have been issued to time and budget with no material defects.

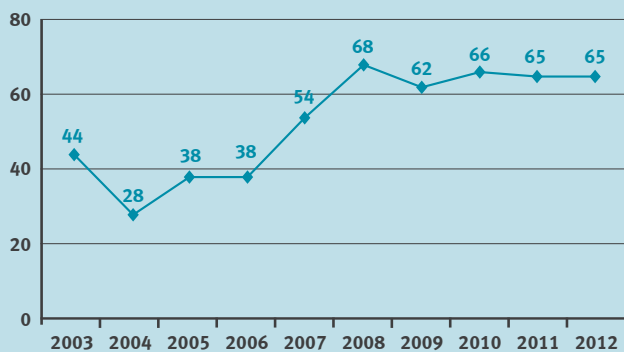
¹ Further information can be found in our Mid-Year Business Update (November 2012): http://www.elexon.co.uk/wp-content/uploads/2012/11/Mid-Year-Update-2012_v1.1.pdf

Safeguarding the BSC Systems

- It's vital that we protect the integrity and security of BSC Systems. In September 2012 we delivered an upgrade to the SVA Systems to ensure they operated on a supported platform. In addition, as part of the process of obtaining IS27001 security certification, we reviewed our quality management and information security policies. We also carried out data penetration testing to ensure that we are less vulnerable to attacks on the data we hold.
- We're pleased that our customers value the services we provide. This is reflected in 'overall satisfaction scores' measured in our annual customer survey, which have continued to reach the high benchmark achieved over preceding years:

ELEXON Customer Survey Results 2012: Overall Satisfaction

Score 8+ (Out of 10)
1/10 = Not At All Satisfied/ Extremely Satisfied



Driving efficiencies and savings in our operational business

We are committed to driving efficiencies in our operational business. We work hard to ensure that we're achieving maximum value from all our contracts. Our commitment in this area was formally acknowledged last year through the achievement of CIPS (Chartered Institute of Purchasing & Supply) accreditation. Throughout the year, we closely monitored expenditure and, where appropriate, revised our budget to ensure that savings were fed back to BSC Parties through reduced monthly billing. At the time of going to press, our full year outturn for 2012/13 is being forecast at £2.4 million below our original budget. The result: a reduction in costs for BSC Parties.

Key savings last year

- Doing more with fewer people drove savings of £412k.
- By actively driving savings in areas such as telephony, IT, insurance, legal and consultancy fees we saved £370k.
- We saved £396k through extension of the BPO and BSC Audit contracts.

The ratings for 'value for money' in our 2012 annual customer survey indicate that our efforts to drive efficiencies and cost savings have not gone unnoticed: this measure was three times higher in 2012 than when we conducted our first customer survey in 2003.

Improving the customer experience and developing richer customer relationships

Last year, as in previous years, we continued to meet regularly with customers, committee members and new participants from across the industry and to seek feedback from them on how we could improve the services we provide them. For example, in response to feedback from customers on the Performance Assurance Framework we took steps to improve customers' experience of Settlement Risks and compliance. We made it easier for customers to understand the impact of their performance by publishing a new set of criteria for calculating Settlement Risk Ratings and improved the guidance material and advice on our website.

We seek formal feedback on our performance each year through the annual customer survey. We were delighted with the results of our 2012 survey. We maintained the high standards of feedback that we received over the two preceding years and, in some areas, made significant improvements. Our customers' perception was that we understood them better; we were offering the right level of support, facilitating industry debate and providing better value for money than ever.

Developing our services and adapting our business to address industry challenges

Last year we continued to prove ourselves as trusted expert advisors to industry, the government and regulator whilst facilitating debate amongst key industry groups. We're proud of the 'impartial expert' label attributed to us by DECC, and continued to provide support on Smart metering and EMR.

2012 was particularly busy in terms of European developments. In response to this, we spent more time working with our stakeholders scanning the horizon for changes likely to impact the BSC.

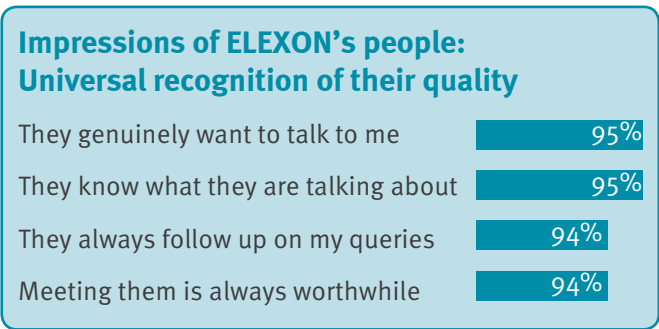
Working alongside BSC Parties, we championed short and medium-term Settlement issues through the Profiling and Settlement Review Group. Key achievements in this area included the establishment of the Settlement Reform Scoping Group (SRSG), development of a roadmap for the dynamic switching of smart meters and proposals for profile accuracy maintenance.

ELEXON Service Ratings Over Time

	2009 %	2010 %	2011 %	2012 %
Overall helpfulness	81	77	81	81
Being flexible	44	38	49	47
Keeping costs down	29	29	25	35
Facilitating industry debate	48	54	50	63
Providing the right level of support	59	60	63	63
Understanding your business	48	49	43	52

Investing in our people for the benefit of our industry

ELEXON’s key asset is its people. Feedback in last year’s customer survey confirmed how much our customers value their expertise and knowledge. Their core skills and experience make ELEXON a key source of industry advice, training and education – whether through the BSC Service Desk, the Operational Support Managers, Introduction Seminars or tailored training sessions.



It’s vital that we sustain and develop this expertise for the benefit of our customers so last year, for the first time, we included in our Business Plan a strategy focusing specifically on investing in our people:

- We’ve put in place a 360 degree feedback mechanism for all colleagues to improve everyone’s understanding of their own performance.
- We’ve continued to share knowledge amongst colleagues through a series of ‘Learn and lunch’ sessions.
- ELEXON’s ‘Great place to work’ initiative has gone from strength to strength, with colleagues taking ownership for driving change, improving knowledge sharing across the business and making improvements to the new starter induction process.

This investment has paid off. We’re delivering more with fewer people and our recent staff survey results show that morale amongst staff well above the norm, and 51% higher than this time last year.

Our Strategic Priorities for 2013-14

The strategy we set out in our 2012/13 Business Plan was very much a perpetuation of the far more ambitious plan that we first put in place in 2011/12. In 2012/13 we continued making progress against the mission and vision, improving our management of the BSC for the benefit of customers and delivering better value for money than ever before.

The BSCCo's mission and vision are still fit for purpose, so the overall strategy will be unchanged from that which we worked towards last year:

- 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”**

The BSCCo strategy and associated priorities and budget provide a plan for delivering the BSC over the coming years. Ensuring excellence in the governance and operation of the Balancing and Settlement arrangements sits at the heart of what we do and remains our priority.

A key part of our role in delivering the BSC arrangements is to ensure that they are robust and fit for purpose, particularly given the changes about to ensue in the worlds of Smart Metering, Electricity Market Reform and European developments, for example. With this in mind, we do plan to actively monitor the market for changes that may impact the BSC, and to engage with our customers to seek opportunities where we may be able to use our expertise to contribute to debate, provide guidance and advice, and increase our value to BSC Parties.

Most importantly, this plan is a continuation of last year's, designed to ensure that we maintain our track record of delivering the BSC in an effective, efficient and economic manner to the benefit of our customers.



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 the BSCCo delivers in an efficient, effective and economic way**
- **Drive efficiencies and savings in the operation of the BSC**
- **Improve the customer experience and develop richer customer relationships**

To pursue our vision we will:

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

To support both the mission and vision we will:

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

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

Our Five Strategic Priorities

Priority 1	• Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way
Priority 2	• Drive efficiencies and savings in the operation of the BSC
Priority 3	• Improve the customer experience and develop richer customer relationships
Priority 4	• Develop BSC services to address industry challenges
Priority 5	• Invest in our people for the benefit of the industry

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

Delivering BSC Services that our customers trust, can rely on and have confidence in is at the core of what we do. We remain absolutely committed to delivering the BSC and to working with the BSC Panel and its Panel committees to provide them with the support and analysis they need to fulfil their responsibilities on behalf of BSC Parties.

We want to deliver an excellent service that exceeds our customers' expectations whilst also providing them with better value for money than ever before by providing innovative solutions that enable us to be more efficient, effective and economic.

In the past, we've recognised that some of the BSC and our own systems, processes and procedures may be more complex than necessary, and may fail to take advantage of improved technology or acknowledged best practice. We've identified cases where we believe there's scope for making a real difference to our customers' businesses, making it cheaper and easier for them to operate under the BSC. For example, this year we've reviewed our approach to managing defaulting Parties to minimise the financial impacts on the rest of the BSC Party community. We've improved the profiling process by updating Settlement profiles mid-year, enabling timescales for profile production to be reduced from two years to one. We've carried out a review of the BSC Service Desk Service Level Agreements and made changes to the service to further align it with ITIL best practice, putting more emphasis on improving the customer experience and improving the first line fix rate.

Over the coming year we'll work hard to identify more of these opportunities where we can improve our delivery of the BSC services to make our customers' lives easier.

To meet this priority we will:

- ensure the ongoing integrity of the BSC Settlement arrangements;
- improve end-to-end operational delivery of the BSC; and
- streamline, automate, in/outsource or retire functions to ensure that levels of service are fit for purpose and deliver value for money.

Delivery of Application Strategy

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.

One of the key areas where we can make a real difference is with the development of our 'Internal Applications'. These are a series of in-house bespoke solutions that ELEXON has developed over time to provide a common reporting platform for the Central Systems, as none were planned as part of the initial solution. The applications deliver a range of data analysis, reporting and performance assurance services to the industry. They support BSCCo's fulfilment of various BSC obligations, provide market information to customers, and provide reports to the BSC Panel and its sub-committees to enable them to discharge their obligations (e.g. Line Loss factor validation and Credit monitoring).

The applications were developed tactically in response to evolving business needs post-NETA and rely on data that is both extracted from the Central Settlement systems and also on data files submitted by market participants. This has resulted in a mix of technologies and lack of a common architecture across the internal applications, making them unreliable, difficult to support and expensive to change. In some cases, change to these applications has cost more than the equivalent change to core BPO systems.

In 2013/14 we are planning to replace these internal applications to provide a robust and more cost-effective platform for the current Internal Applications functionality, and to reduce the cost of change in future. This will fully integrate with the BPO Transformation Programme (see below under Priority 2). Customers will benefit from enhanced capability, which uses the identity management features in the existing ELEXON Portal to provide them with secure web-based access to their own data and reports.

Improving Data Services to BSC Parties

In addition to the work on internal applications, we will continue to look for opportunities to improve the timeliness and availability of data to BSC Parties. We are committed to working with our customers to improve and innovate these data services, but are mindful of the need to operate within our vires and always in a way that will better facilitate the BSC objectives. As we develop our thinking in this area we will come forward with specific propositions and seek the views of BSC Parties.

We also note that there may be a need for BSC Systems and related data to feed into solutions to meet transparency obligations introduced under the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). We have engaged with BSC Parties and the BSC Panel – and will continue to do so – on potential approaches that we believe would provide an efficient, effective solution.

Improving Delivery of Change

Throughout 2013/14 we will continue to embed improved working practice to simplify our approach to cross company change and ensure that innovation is efficient and effective.

Equally, we will seek to provide an improved framework for the development and progression of industry change. Over the coming year, we want to create a more flexible, dynamic and efficient process which is easy to use, simple to understand and delivers benefit to the whole industry.

Smart Metering

Over the past 12 months we've been engaging with DECC's Smart Metering Implementation Programme (SMIP) to ensure that the central smart infrastructure is set up to succeed and is capable of supporting the existing BSC arrangements. Equally, our involvement has enabled us to understand how the smart metering arrangements are developing so that we are fully aware of any potential impacts on Settlement.

We will continue to review the requirements coming out of the SMIP and to share our experiences of market design, implementation and operation. This involvement is vital to ensuring the on-going integrity of Settlement and robustness of the BSC as we get closer to full scale smart meter roll-out.

Priority 2 – Drive efficiencies and savings in the operation of the BSC

We always aim to create additional value for our customers by improving and enhancing BSCCo services and driving down costs where sensible and appropriate. The continuing economic downturn means that customers' focus on BSCCo's efficiency and value for money will continue to be heightened.

Our 2012 customer survey results show that our customers' perception of the value for money we offer is higher than ever. To maintain this, BSCCo must carry on striving to deliver value through a customer-focused service that is best in class. While BSCCo will maintain its commitment to continuously improve its services, we are mindful of the need for a robust financial business case to justify each potential development.

This year we've negotiated a 2 year extension on the BPO Contract with Logica, leading to savings of £1.7m over the revised term of the contract. Looking forward, we'll need to work towards re-procurement of this contract, and also seek opportunities for overhauling the BSC system architecture. As part of our ongoing obligation to manage the BSC Agents, we have initiated procurements for the Technical Assurance, Audit and Qualification Agents. In addition, we continue to carry out reviews of all BSCCo's contracts to ensure that we're achieving maximum value from contractual relationships, that we're procuring the right services and that any service improvements are identified and delivered.

To meet this priority, we will:

- promote controlled financial management;
- drive out efficiencies and savings; and
- secure best value from commercial relationships, delivering innovation through partnership.

Value through commercial relationships

The partnership of ELEXON and Logica won the National Outsourcing Association BPO Contract of the year award 2012. This award recognises how we continue to build and manage our 'partnering approach' to the relationship with Logica. It also demonstrates that the outsourcing sector consider ELEXON's management of outsourced services to be best in class.

Over recent years we have achieved continuous improvement in the way we have procured our outsourced agents. To continue to deliver best value to our customers during 2013/14, we will now focus our attention on the services we currently undertake in-house, such as IT service provision. We will continue to carry out reviews of our contracts to ensure that we are procuring the right services for the benefit of our customers.

Improving processes

We've worked in partnership with our Service Providers to drive through a number of improvements to our operational processes ensuring we secure best value. In particular, ELEXON extended the BPO contract with Logica for a further 2 year period. This will lead to a saving of £1.7m over the revised term of the contract.

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 will continue to assess whether we can automate, eliminate or outsource BSC processes where this can benefit our customers.

BPO Transformation Programme

BSC Central Systems business processes are complex and labour intensive and customer communications are heavily dependent on paper-based forms which are frequently prone to errors. These processes are inefficient and significantly more expensive to operate than more automated services. Technology has also moved on since the requirements for these services were specified in 2001, as part of the introduction of the New Electricity Trading Arrangements (NETA).

In response to customer feedback on our work preparing the Central Systems for future change, ELEXON has developed a strategic initiative, the BPO Transformation Programme, which includes business processes and technology, to address a number of current risks and issues that will potentially impede the ability of the Central Systems to meet future needs of the industry.

The strategic initiative also has the benefit of paving the way for a more competitive procurement for the BPO systems which is due to commence in 2015.

This is an opportunity for us to work with our customers to face these challenges head on and be in a position to respond to future industry changes such as the new smart settlement, EU Regulation, and EMR while delivering savings back to our customers.

During 2013/14, the objective of the BPO Transformation Programme is to design an efficient, effective and economical customer centric model which will enable our customers to operate under the BSC in a simple and cost effective manner using a paperless, fully web enabled and tailored environment.

The programme will also put more flesh on the outline procurement plan, with the aim of appointing our delivery partner(s) in Q2 2014 to design, build, test & run the new Central Systems in the most cost effective way. Whilst the implementation of the new Central Systems will require an investment of c£20m² our belief is that we will be able to smooth this over the life of the contract (as was the case with Logica, our current Service Provider). The business case presented to the Board showed that industry will benefit from significantly reduced operating costs as a result of this investment programme which produced a positive Net Present Value over the life of the contract. We have included a programme cost profile to show how the investment reduces the contracted costs over the contract period to 2021.

Due to the nature of this programme we plan to engage in a formalised way with the BSC Panel, BSC Parties and other stakeholders.

IT Service Management

Last year we undertook a review of our IT Service Management processes and as a result intend to outsource our IT service management during 2013/14. This initiative will help to drive cost savings across the business and deliver further value for money for customers, whilst also providing ELEXON with a 'fit for purpose' IT support function.

² An initial estimate based on dialogue with our Application Management/Development provider. This gives an indication of required investment and not the cash flow implications for BSC Parties.

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. Last year, we continued to focus on engaging with customers in order to understand their needs and priorities, and this is something we want to continue doing over the next 12 months.

Our customers have told us that, more than ever before, we understand their businesses and are providing them with the right level of support. However, we recognise that there is always scope for improvement, particularly in areas where our customers have told us we're falling short – for example, there's still room to improve our website navigation and search facilities.

We'll continue to review how we interact with our customers – both face to face and via the website, and also through our reports and documentation. We want to carry on meeting our customers' needs and fulfilling their requirements of us whilst, in parallel, acting as an independent critical friend. We also aspire to improve against the service levels we measure in our annual customer survey.

To meet this priority, we will:

- actively and consistently manage stakeholder relationships;
- identify customers' needs and common problems through planned interaction and targeted communication;
- reassess how we seek feedback from customers to ensure we get relevant, timely feedback that can be acted upon; and
- respond to feedback received in the latest customer survey.

Customer Relationships 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. Our OSMs provide timely and relevant support to customers and during 2012/13 we increased the number of dedicated OSMs by one as a result of the increased demand for this very popular service. As the industry faces a period of significant change this additional support will continue in 2013/14.

Further web development

In 2012 a new version of the ELEXON website went live which delivered significant improvements in the page response times. Our 2012 customer survey highlighted that customers are still not entirely satisfied with the website, so in 2013/14 we will engage with customers by holding facilitated workshops to jointly determine the further improvements we need to make, in particular to the website navigation and search facilities. We intend to make every visit to our website an easy and intuitive experience for customers, enabling them to find the important information they need quickly and efficiently.

Sharing our knowledge and expertise

We will provide opportunities for strategic engagement with our customers and stakeholders, including BSC Parties, the government and regulatory bodies. This will help us understand and contribute to solving the common industry problems, as well as providing a conduit for more focussed feedback on our future plans and strategy. This allows us to be at the forefront of industry change, whether supporting its development or in efficiently implementing the solution.

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. We will also continue providing support and training to all stakeholders, including (particularly during this time of rapid industry change) the government.

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, select to receive the updates you're interested in and sign up for training and educational events through our website. Visit us at <http://www.elexon.co.uk>.

Priority 4 – Develop BSC services to address industry challenges

The pace of change within our industry continues at an unprecedented rate. We must ensure that, in these times of change, the BSC arrangements remain robust and fit for purpose, acting as an enabler, not a blocker to new technologies, processes and ways of working.

We've demonstrated the value to the industry in assessing and responding to threats and opportunities for the BSC, and will continue to do so. We're proud of the 'impartial expert' label that DECC has given BSCCo, and that – consequently – advice and support has been sought on Smart metering, EMR and issues coming out of Europe. We will continue to respond for these requests and acknowledge that ELEXON has a responsibility to support the government through knowledge sharing and the provision of advice on settlement related matters.

Specific areas where we've already been supporting the industry in this time of significant change include:

- Examination of the draft Smart Energy Code (SEC) in order to understand similarities between SEC and BSC Market Entry processes.
- Provision of support to DECC's 'solutions centre' for its Smart Metering Implementation Programme (SMIP) and support to cross-code workgroups considering consequential changes to other industry codes. We've also developed a roadmap of consequential changes to the BSC arrangements arising from the SMIP.
- Support provided to DECC on its Electricity Market Reform (EMR) proposals (specifically in the areas of Accession and Credit).
- Support provided to Ofgem on its Electricity Balancing Significant Code Review (SCR) and provision of post-implementation analysis of pricing Modification P217A (used by Ofgem in its SCR launch documentation).
- Provision of regular updates to the Panel on the SMIP and European developments.

As the central arrangements for the retail and wholesale markets evolve over time, the BSC arrangements will also need to flex, adapt and develop.

To meet this priority, we will:

- maintain BSCCo's role as trusted and impartial industry advisor;
- understand the impacts on the BSC arising from smart metering, EMR and European developments;
- horizon scan for likely market impacts of smart grids and smarter markets;
- support Ofgem in its delivery of the Significant Code Review; and
- ensure that we maintain and develop a roadmap of changes to the BSC arising from current and future market developments.

Smart Activities

1 Smart Meters

Over the past 12 months we've provided support to the SMIP. We believe there is real value to the wider industry in ELEXON continuing to play a key role in supporting the government in this vital area.

While understanding the impacts of smart metering on the BSC and supporting the SMIP sit firmly within Priority 1, we believe we have an important part to play in contributing more widely to the smart debate.

Looking further ahead, it is inevitable that the introduction of smart metering will lead to changes in customer behaviours and supplier requirements. We will continue to work with the industry to identify subsequent impacts on the BSC arrangements and processes and progress the changes needed to accommodate these impacts.

Whilst we have expressed an interest in pursuing new smart metering opportunities, this will not be to the detriment of delivering the BSC services.

2 Smarter Markets

At the end of July 2012 Ofgem published its conclusions from its Smarter Markets consultation, proposing four areas where further work was necessary. One of the propositions related to the future of Settlement arrangements and whether further work should be undertaken to determine how Settlement should be reformed to maximise the benefits of smart metering. Ofgem has written to the BSC Panel asking it to provide a report by end of December 2012 setting out how it would manage a project to review and deliver Settlement reform. Ofgem will use this report to determine who should lead on a review of Settlement reform.

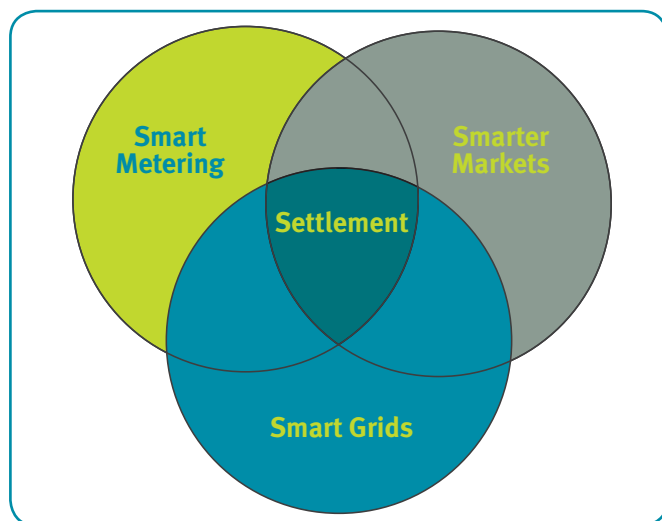
If Ofgem requests the Panel to undertake this work, it is estimated that the review would take approximately 15 months to complete and draw upon 3 full time ELEXON resources, supported by a strong commitment from industry and other stakeholders to define a vision for Settlement and develop the detailed changes to deliver that vision.

3 Smart Grids

Discussion on Smart Grids is gaining increasing prominence as the industry considers the challenges that will be placed on the distribution networks through increased use of electricity (e.g. through electric vehicles and heat pumps) and the need to accommodate distributed and intermittent generation (e.g. photovoltaic arrays and wind turbines).

Deploying new Smart Grid technology and solutions will potentially require new markets and involve a new set of participants. There could be significant consequential impacts on the BSC arrangements and BSC Parties.

ELEXON will stay abreast of changes in this field by monitoring forums and reviewing their outputs. Where appropriate we will participate more actively to ensure that impacts on the BSC arrangements are understood and efficient solutions are identified.



Electricity Market Reform (EMR)

ELEXON has been working closely with DECC to identify potential solutions for and impacts of Electricity Market Reform. We firmly believe that ELEXON can add value to whichever EMR settlement model is chosen, reducing costs for the industry and ultimately the consumer if ELEXON is used as the delivery body for the administration and settlement of Feed-in Tariff Contract for Differences (FiT CfDs), Capacity Mechanism Payments or any other related initiatives.

We will continue to provide advice and guidance to DECC, but also acknowledge that taking on additional roles (e.g. EMR payment and settlement body for FiT CfDs or Capacity mechanism) would require a change to the BSC.

European Developments

In a busy period for European developments, we've been scanning the horizon for impacts on the existing BSC arrangements. We will continue to monitor European legislative changes. The Balancing Framework Guidelines are of particular interest to us at the moment. This document - which refers to the harmonisation of imbalance settlement across Europe within three years of the Network Code coming into force – could lead to significant consequential changes to the BSC.

Support to Significant Code Reviews (SCRs)

In 2012 Ofgem launched a Significant Code Review looking at 'Electricity Balancing'. The potential scope of this SCR is much wider than just 'cash-out' (as initially thought) and could have a significant impact on the BSC and its arrangements. Due to our extensive experience in the pricing arrangements we will be providing support and guidance to Ofgem as part of the SCR. We will maintain a focus on working towards a final solution that is efficient, effective and economic for the industry.

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

The BSCCo's key asset is its people, and feedback from the 2012 customer survey confirmed the extent to which our customers value their expertise and knowledge. Their core skills and experience make BSCCo a key source of industry advice, training and education – whether through the BSC Service Desk, the Operational Support Managers, the Introduction Seminars or tailored sessions for BSC Parties, Ofgem, DECC and overseas regulatory bodies.

We want to continue fulfilling our role as impartial advisor and industry expert, and to do so we are reliant on the expertise, knowledge and professionalism of all our staff. Given this, and acknowledging the fact that last year we saw some experienced members of staff move on to other roles within the industry, it's more important than ever that we have a strategy in place to retain our existing people and recruit and train new staff so we have the right balance of skills, knowledge and capability to deliver the service our customers expect. In recognition of the current economic climate, we are committed to fulfilling this priority through innovative measures, so we have sought to slightly reduce the recruitment budget for the year ahead.

We will continue to invest in staff development, particularly focusing on equipping managers with the skills to provide effective and meaningful feedback. This focus on management and leadership skills will be complemented by a continuation of the 'Great Place to Work' initiative, empowering colleagues from across the organisation to take responsibility for making changes for the greater good, improving the way we work together and sharing knowledge.

Next year, we plan to be more innovative about how we recruit talent into the organisation. We've introduced a new careers website to help give potential employees a real flavour of life at ELEXON. By using this in conjunction with social media, we feel we'll have a real opportunity to recruit more efficiently and at a far lower cost than through more traditional approaches.

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. As we have done in previous years, we assess salary reviews in comparison with the rest of the industry.

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

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 monthly reports to the BSC Panel, 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 Mid-Year Business Update.

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 each month to the BSC Panel.

The Budget

Overview

This document details the budgeted costs for 2013/14 in support of our strategy, as laid out in Section A of this Business Plan. We believe this budget enables us to deliver the five strategic priorities identified in our Business Plan, particularly around improving the end to end operational delivery of the BSC, streamlining & automating to ensure that levels of service are fit for purpose and deliver value for money; developing and adapting BSC services 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 2012/13 forecast and budget. It should be noted that we started the budget process in October, so the comparison for the full year outturn for 2012/13 is based on the September 2012 forecast.

We continue to drive 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 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 11 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 not only appropriate, but challenging for the year ahead, and delivers value for money to our stakeholders. After applying indexation based on RPI of 4.2%, the budget for this category has increased modestly by £0.4m (2.5%) compared with our 2012/13 forecast and reduced by £0.4m (2.5%) compared with our budget for 2012/13 in real terms.

Table 1 Budget Summary

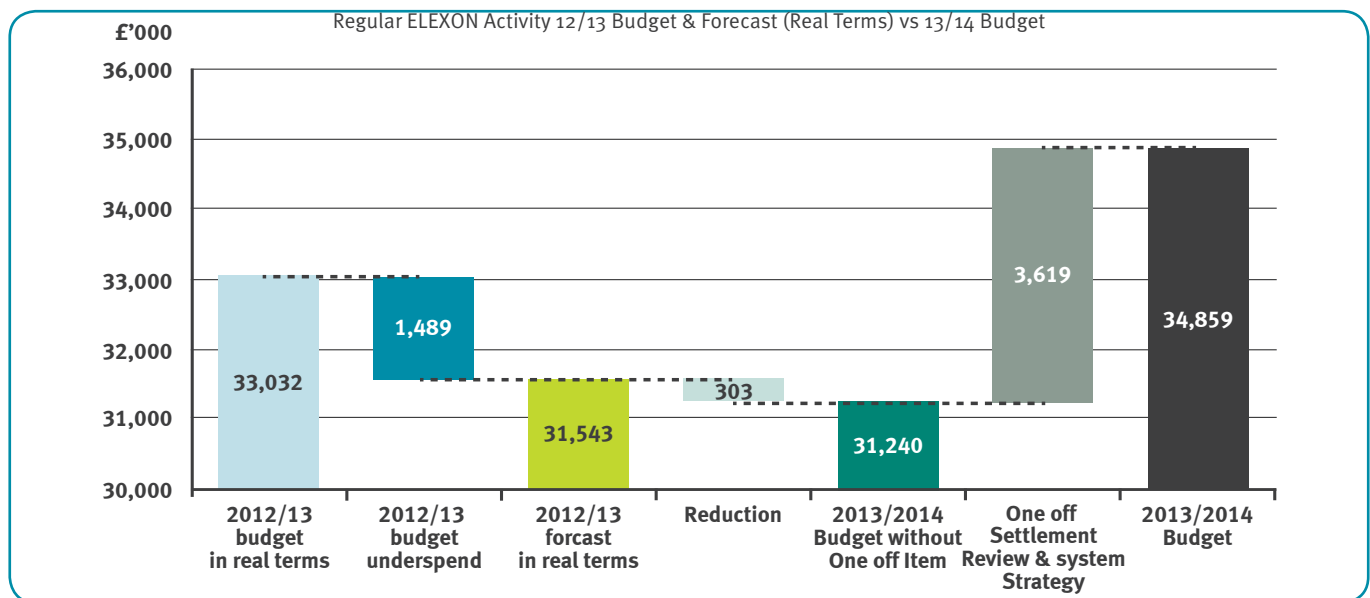
Item	Year to March				
	2013 Budget £m	2013 Forecast £m	2014 Budget £m	2015 Projection £m	2016 Projection £m
ELEXON Operational	15.9	15.1	16.2	16.6	17.2
Demand Led	1.5	1.3	2.8	2.6	2.5
Contracted	14.3	13.8	13.5	13.1	13.3
System Strategy	–	–	2.4	3.2	3.2
Total Regular Activities	31.7	30.3	34.9	35.5	36.1
Market Development	2.0	1.5	2.0	2.0	2.0
Governance & Vires	1.5	1.0	–	–	–
Overall Total	35.2	32.8	36.9	37.5	38.1

Budget

The budget for total regular ELEXON activity shows an increase of £4.6m (15.2%) against the forecast for 2012/13, and an increase of £3.2m (10.0%) against current year's budget. It's worth noting that the 2013/14 budget includes two one-off items, the £1.2m Settlement Review required by Ofgem (please refer to Demand Led Section), and the £2.4m System Strategy (please refer to System Strategy Section). Comparison excluding the one-off

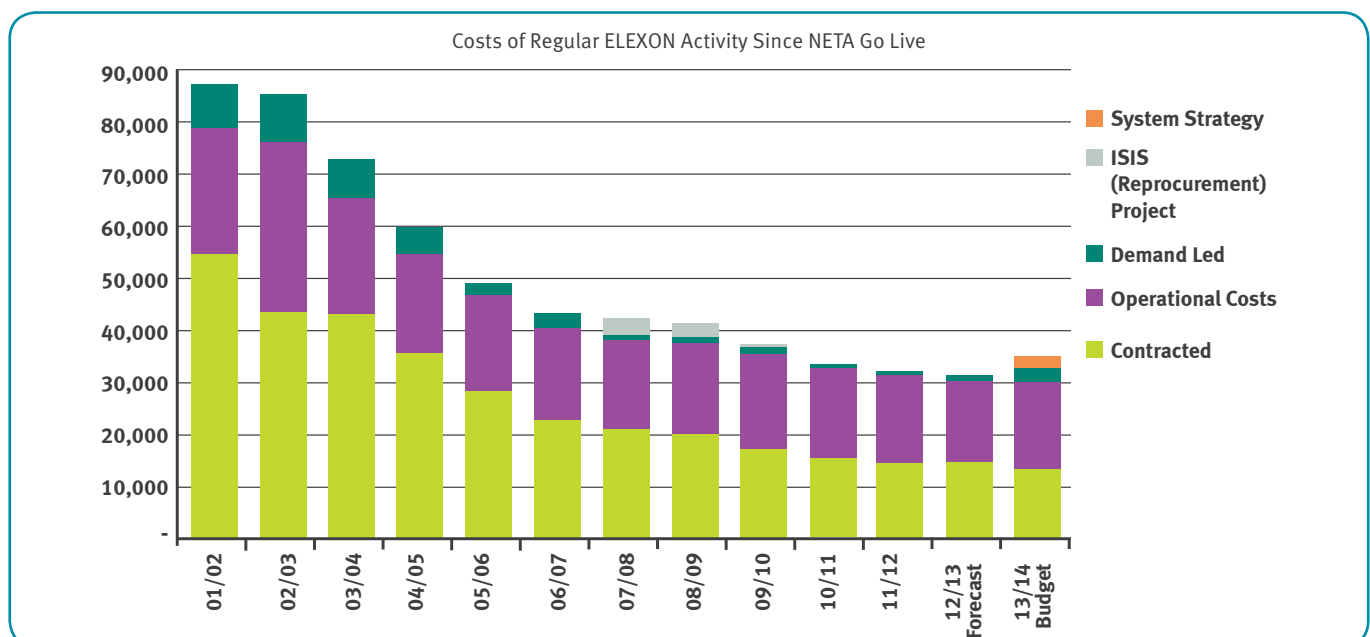
items shows an increase of £1.0m (3.2%) against the forecast for 2012/13, but a reduction of £0.5m (1.5%) against current year's budget. If we apply 4.2% RPI to the regular activity in the forecast and budget for 2012/13, excluding the two one-off items mentioned above from the 2013/14 budget, real terms savings of £0.3m (1.0%) and of £1.8m (5.4%) respectively can be seen. This is demonstrated in chart 1.

Chart 1 Costs of Regular ELEXON Activity: 12/13 Budget and Forecast (in Real Terms) vs 13/14 Budget



Furthermore, Chart 2 below 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 (Excluding NETA Costs)



ELEXON Operational

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

Table 2 ELEXON Operational

Item	Year to March				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
People costs	9,737	9,325	9,987	10,270	10,680
Occupancy	3,005	3,041	3,165	3,298	3,450
Other Overheads	2,286	2,078	2,111	2,153	2,147
Consultancy Support	245	200	255	249	249
Legal and Statutory Audit	155	101	160	164	169
Income (net)	(77)	(79)	(77)	(77)	(77)
Projects	350	350	350	350	350
Contingency provided	200	100	200	200	200
Operational Total	15,902	15,116	16,150	16,606	17,167

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				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
Employee Costs	9,134	8,316	9,485	9,861	10,273
Contractors	604	1,009	502	409	407
Total People Costs	9,737	9,325	9,987	10,270	10,680
Employee Headcount	117.8	115.7	118.3	118.3	117.3
Contractor Headcount	4.4	6.2	4.0	4.0	4.0
Total Headcount	122.2	121.9	122.3	122.3	121.3

Over the past 3 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 actively restructuring areas of the business, as well as challenging the immediate need to recruit when vacancies arise. In the past year our sector has been particularly buoyant, and as a consequence, we experienced an increase in staff turnover at the end of the last and the beginning of this financial year. We actively seek to develop our people and therefore explore suitable internal candidates when appropriate. The impact of this however is often a lengthening of the recruitment process as we seek to bring new talent into the organisation to fill the ultimate vacancy. As a result around 20 vacancies were filled between April and November of this year. Therefore for significant periods of the year we operated at below the required headcount, which was sustainable in the short-term. The effect of this has contributed to the lower people costs in our 2012/13 forecast compared to the 2012/13 budget. The current year forecast represents an average "full time equivalent" of 114.8. The budget for 2013/14 of 122.3, again based on FTEs, is at the same level as 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.

Taking the above material changes into consideration it can be seen that compared to the enduring costs of £9,737k identified in the 2012/13 budget, 2013/14 budget has increased marginally by £249k, or 2.6%. The 2012/13 forecast outturn is currently expected to be £9,325k; however this is based on an average FTE of 114.8, due to time lags in recruitment. As already stated, next year we are budgeting to achieve optimum headcount of 122.3, which is 6.5% higher than the current year's forecast number. The increase in cost for 2013/14 is only 7.1%, or £662k, above the 2012/13 forecast.

We actively manage resources 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 agreement of 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 £309k in the 2013/14 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 £507k on contractors against the 2012/13 forecast. The IT contractors budgeted for 2013/14 is based on the existing in-house model. Should the business case for IT outsourcing be approved by the Board, we will update this area in due course to reflect the costs of the outsource model.

Occupancy

The occupancy cost for 2013/14, which includes not only rent and rates but also maintenance, utility and service charges, is budgeted to be £3,165k, some £124k 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. An inflation uplift on our base liability has given rise to an increase of £35k.
- The lease of our premises was up for another review in August. We have successfully negotiated to keep the rent at the current level for the next five years until August 2017³.
- Our electricity is a pass through cost from our landlord. The current fixed price contract comes to an end in September 2013. We've budgeted for £10k provision to absorb any likely increase in the new contract.
- We have seen a 13% increase in our building maintenance costs charged by the landlord in 2012/13, which leads to an overspend of £41k. Much of the increase related to reactive maintenance work. We have been informed by the site management team that the worst case increase for next year will be 20% (£74k) as they seek to make provision for a sinking fund to replace lifts in a few years' time. We are working with the landlord to try and achieve a more consistent cost base, with fewer year on year spikes.

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

Other Overheads	Year to March				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
Payroll Related	23	21	23	23	23
Training	242	242	240	240	240
Recruiting	186	186	100	100	100
Staff Welfare	196	202	189	189	199
Travel & Subsistence	123	123	129	124	125
Office Expenses	501	470	521	548	507
Telephone	90	77	95	99	103
IT/Computers	510	480	476	494	512
General Admin	223	207	262	260	262
Market Research	175	56	61	61	61
Bank Charges and Interest	15	14	14	15	15
Misc.	2	(0)	–	–	–
Other Overheads	2,286	2,078	2,111	2,153	2,147

³ The terms of the lease do not allow the rent to go down.

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 reasonably static for the coming year.
- Training – this figure has been derived by assessing CPD requirements and job specific training needs, as well as corporate training initiatives. As part of our business strategy, we are committed to investing in our people for the benefit of industry, and we have therefore set a budget that remains at a similar level to current year.
- Recruitment – over recent months, we have sought to source candidates in a more agile and cost effective way through greater use of job sites and social media, which has enabled us to realise significant savings on recruitment fees. The savings in the current year have been offset by the provision to recruit new non-executive directors as the implementation of P281. However, we expect to achieve savings in this area going forward and have therefore set the 13/14 budget at £100k, a 46% reduction from the 12/13 budget.
- 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 actively pursued a more focused approach to Corporate Social Responsibility; the costs associated with this are also included here.
- Travel and Subsistence – we will be looking to continue to improve customer experience and develop richer customer relationships as part of our business strategy. We will continue to support parties by maintaining current levels of customer visits. We have provided for a modest increase to cover the uplift in rail fares.
- 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. As an action coming out of our recent customer survey, and following feedback from panel and committee members, we will be looking this year to bring our AV equipment up to date, replacing aging technology and ensuring our meeting facilities are fit for purpose. This will of course give rise to an increase in depreciation, and is the reason for the majority of this uplift when compared with the current year forecast.
- Telephone & IT/Computers – we anticipate an increase in cost in the coming year for both telephone maintenance and call charges.
- Telephone & IT/Computers – this includes infrastructure support, as well as software licence and maintenance costs for our internal systems, maintenance and charges for our telecommunication systems with a modest uplift of £14k for inflation allowance. We've budgeted the same level of activity for 13/14 assuming the current in-house model remains. Should the outsource business case be approved by the Board, we will update the budget with the cost of the outsource model.
- 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 Committees. In July we achieved accreditation from the Chartered Institute of Purchasing and Supply (CIPS), which confirms that we follow best practice in the sourcing and buying of goods and services. During the current year, we are also seeking to achieve ISO27001 accreditation for information security. The majority of the increase in the budget will enable us to support and maintain these accreditations.

- Market Research – this includes market intelligence reports and memberships and publications. The reduction of £113k from current year budget reflects the exclusion of any business development related costs.
- Bank Charges and Interest – we anticipate this category to remain at the same level as current year run rate.

Consultancy support

Over the past 2 years we've actively 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. We use consultants in a number of areas where it would not be financially viable to maintain full time expertise within the organisation, and by taking this approach, we are able to return funds to industry as has been the case in the current year. We will take the same approach for the coming year, and have therefore budgeted at the same level as current year budget.

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 the 2012/13 budget.

Income

Assumptions around office hire, interest and Warm Homes incomes remain consistent with current trends seen in our 2012/13 forecast.

Projects & Capital Expenditures

We've identified a number of innovation initiatives which we feel will drive further efficiencies in the business. In support of these, we've included a project budget of £350k, which is consistent with the current year's budget. The capital expenditure requirement related to each initiative and the incidental replacement of normal wear and tear of office equipment equates to £50k (the depreciation of which is included in our operational overheads section). We continue to ensure that all initiatives are supported by robust business cases, which need to demonstrate 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 major unplanned office maintenance incidents and maternity cover. Our approach remains that we assess the financial impact as well as the probability, and set the contingency accordingly.

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 appropriate 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 2013/14 is £236k higher than the current year forecast, and is a £34k uplift compared with the 2012/13 budget. The variance and the main assumptions can be further explained as follow:-

- We've set the budget for modification proposal at £150k, similar to current year. This figure excludes any additional work which may be incurred as a result of EMR.
- The budget for systems releases has been set at £750k, a £50k increase compared to the 2012/13 budget. It should be noted that the current year forecast is relatively low due to the fact that the June & November 2012 releases were modest and the planned February 2012 release is also expected to be at a similar level.

Demand Led

Table 5 ELEXON Demand Led

Item	Year to March				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
Impact Assessment	62	59	51	51	50
Modification & Change Proposals	155	156	150	150	150
Panel Committee Projects	100	100	100	100	100
BSC Systems Strategic Development	500	500	500	500	500
BSC Systems Releases	700	500	750	750	750
System Changes Driven by EMR, SMART & SCR	–	–	–	1,000	1,000
Settlement Review	–	–	1,200	65	–
Total Demand Led	1,517	1,315	2,751	2,616	2,550

- We have budgeted £100k to cover additions to our cost base resulting from actions requested by Panel Committees. This is to ensure that the approach we take is in line with other demand driven activity and to enable an agile approach to demand.
- As part of our commitment to continue our strategic thinking around how we deliver services, we have been exploring the possibility of delivering our BPO services using more modern, leaner system architecture. We believe that this would allow us to significantly reduce the risk of system failure, and deliver change in a more flexible and cost effective way, as well as future proofing BPO systems by replacing aging technology. A business case will be presented to the Board for approval in December and should this be approved, it is likely to absorb the whole of the £500k development fund planned for 2013/14.
- The Smarter Markets team within Ofgem is proposing a review of the Settlement arrangements. In response to a request from Ofgem, ELEXON is providing a report by the end of December 2012. Whether the Panel and ELEXON manage the actual review or contribute heavily to it, there may be costs for ELEXON. The activities of ELEXON in the review are therefore included in the Demand Led budget as a separate line item. This figure is based on the resource and costs estimate contained in the report. It includes a provision for specialist support to help in the development or running of cost benefits analysis or specialist advice on consumer benefits or targeted engagement activity. It also includes an estimated equivalent of three full time resources required to support the review process. This includes (but is not limited to):
 - managing the review process;
 - chairing meetings;
 - producing working group materials;
 - developing final deliverables;
 - managing stakeholder engagement;
 - reporting.

Contracted

Table 6 Contracted

Item	Year to March				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
Central Volume Allocation (CVA)	6,694	6,530	6,266	6,190	6,083
SVAA	1,270	1,251	1,190	1,172	1,149
DTS	940	953	1,075	1,178	1,290
Profiling	268	267	243	248	318
UMS	407	409	–	–	–
Software Support	441	442	436	234	280
Teleswitch	81	81	94	98	102
Qualification	432	432	380	320	334
Supplier Volume Allocation (SVA)	3,838	3,834	3,417	3,250	3,472
Fund Administration Agent	1,285	1,220	1,166	1,150	1,126
Operational Audit	1,450	1,333	1,888	1,614	1,716
Technical Assurance	641	549	424	474	458
Other Contracted Costs	374	375	378	391	406
Total Contracted	14,282	13,841	13,539	13,070	13,261

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 predominantly fixed costs. Our procurement strategy seeks to deliver better terms and lower costs as contracts fall due for re-procurement. The successful negotiation to bring costs down through the extension of the main Central Volume Allocation (CVA), Supplier Volume Allocation (SVA) and Funds Administration Agent (FAA) contracts (new BSC Services Agreement contract) in 2012/13 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. Following is the detailed analysis of major variance -

- The BPO contract extension has delivered a net saving of £301k in 2013/14 when compared to the 2012/13 forecast, after applying a blended indexation of CEL and RPI, which we've predicted to be 4% and 4.2%.
- We have seen a saving of £88k in the fixed element of the AM/Dev contract in comparison to the current year forecast.
- The SVG approved the proposal to suspend further load research of the Unmetered Supplies (UMS) at the end of October due to the diminishing benefits. We therefore have not budgeted for this cost in the 13/14 budget, leading to a reduction of £409k.
- The cost of DTS is driven by two variable elements; namely volume and unit price. We anticipate the volume will increase slightly in 2013/14, and have therefore provided for an additional £25k for this. Another £97k (10%) increase is driven by the price increase to Traffic Usage Charge to allow the service provider to recover their exceptional spend on SMART in 2012. This is a single sourced serviced, meaning that we are unable at present to explore more cost effective option.
- 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 remain the same as current year forecast but a lower level than that was budgeted for 2012/13. However, the 2012/13 forecast has included a one-off cost for a complex application for 7 roles submitted in early October. The £98k reduction from both the 2012/13 budget & forecast also reflects the deeper discount (75%) to "bulk supplier" applications we achieved through the negotiation to extend the Operational Audit contract⁴.
- We will see an increase in the scope of the Operational Audit next year due to more parties falling into the audit threshold. This, coupled with the application of indexation, has led to an increase of £277k for the provision of this service.
- The re-procurement of the TAA contract is taking place at present and a new contract will be put into place by next year. For budgeting purpose, we have assumed the same cost level as that in current year. The 2012/13 budget has included procurement, transition and exit management costs while the 12/13 forecast has included transition and exit management costs. These won't be repeated in 2013/14, hence the reduction of £125k compared to the 2012/13 forecast and £217k when compared to the 2012/13 budget.
- In the last quarter of 2012/13 we will need to begin the process of re-procuring the contracts of 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 £416k.

⁴ The same service provider PWC delivers both the Qualification and Operational Audit service.

System Strategy

Table 7 System Strategy

Item	Year to March				
	2013 Budget £'000	2013 Forecast £'000	2014 Budget £'000	2015 Projection £'000	2016 Projection £'000
Internal Applications	–	–	2.0	0.2	0.2
BPO Transformation	–	–	0.4	3.0	3.0
Strategy	–	–	2.4	3.2	3.2

Internal Applications

As described in Priority 1 of our Business Plan, in 2013/14 we are planning to replace a series of in-house bespoke internal applications that ELEXON has developed over time to provide a reporting platform for the Central Systems to provide a robust and more cost-effective platform for the current Internal Applications functionality, and to reduce the cost of change in future. This will fully integrate with the BPO Transformation Programme (see below). Customers will benefit from enhanced capability, which uses the identity management features in the existing ELEXON Portal to provide them with secure web-based access to their own data and reports. In 2013/14, a budget of £2m has been set aside for the delivery of the application strategy.

BPO Transformation

In response to customer feedback on our work preparing the Central Systems for future change, ELEXON has developed a strategic initiative, the BPO Transformation Programme, which includes business processes and technology, to address a number of current risks and issues that will potentially impede the ability of the Central Systems to meet future needs of the industry. The strategic initiative also has the benefit of paving the way for a more competitive procurement for the BPO systems which is due to commence in 2015.

During 2013/14, the objective of the BPO Transformation Programme is to design an efficient, effective and economical customer centric model which will enable our customers to operate under the BSC in a simple and cost effective manner using a paperless, fully web enabled and tailored environment. A provision of £0.4m has been budgeted to complete the system design in 2013/14 and £3.0m of investment costs are anticipated in the subsequent 2 years. Total investment cost is expected to be £20m, but as described under Priority 2 of our business plan, the business case endorsed by the Board indicated a positive Net Present Value over the new contract life with operational and contract savings outweighing the total investment costs. This business plan does not include details of the business case or projected savings, so as not to prejudice our commercial position prior to commencing negotiations with potential suppliers, but our belief is that this programme will impact the cash flow position for BSC Parties in a favourable way.

A 'stage gate' governance approach will be adopted, whereby the Board's approval is required before the programme is able to progress to the next stage of activity. The Board has asked that regular progress updates are provided and requested that the programme return for Board approval before starting the procurement process (the next stage). The Board decision to award a contract, and hence incur the bulk of the investment cost is expected in Q2 2014.

Market Developments And Governance & Vires

Market Developments

- The energy industry is evolving and we need to ensure the BSC arrangements and our services meet the future needs of the wholesale and retail energy markets and act as an enabler not as a blocker, to new technologies, processes and ways of working. Consequently we need to continue to evaluate the impact on the BSC of such initiatives.
- Market Developments comprises the Smart agenda of Smart Metering, Smarter Markets and Smart Grids, as well as other initiatives and impacts arising from EMR, industry reviews and especially from Europe. These activities are necessary but are a draw on our existing highly experienced personnel who are budgeted for within Operational Costs. Whilst we will continue to prioritise the use of internal resource, we need to recognise the periodic need for external support (the commissioning of third party studies and undertaking impact analysis), as well as the costs of backfilling in order to release these operational staff. This approach has been successfully implemented during 2011/12 and 2012/13. The future workload in this area is uncertain and if such initiatives require internal resource in excess of that which can be backfilled, then additional budget for Operational Costs will need to be sought.
- A budget of £2m has been included for 2013/14 in respect of Market Developments. For the avoidance of doubt £2m is not designed to fund bid costs to provide services outside of the BSC. Any consequential changes to the BSC will be progressed using the established change arrangements.
- To follow the same robust governance of the Market Development budget in the current year, the £2m will be ring-fenced and reviewed periodically, with any reforecast being returned to industry. This is consistent with our track record for 2011/12 and 2012/13.
- We are proud of the 'impartial expert' label that DECC has given us. A list of known initiatives that could impact upon the BSC is set out below. In addition there will inevitably be further initiatives, not yet known, that will also potentially impact the BSC and will require monitoring and assessment. An indicative cost has been attributed to each but is not to be interpreted as an authorisation to spend nor as individual sub-budgets. The total exceeds £2m but not all will arise.

No.	Area	Description	Costs
1	Smart Market's Settlement Review lead by Ofgem	Addressed as part of Demand Led	See Demand Led
2	Smart Meter Implementation Programme (SMIP) Lead by DECC	<p>The SMIP is continuing to develop the new Smart Energy Code arrangements which will deliver new metering / data retrieval arrangements for domestic consumers. These will require consequential changes to the BSC and Settlements arrangements which we will progress. ELEXON supports the DECC Programme in establishing how the smart and existing arrangements will interact. We will continue to review the requirements coming out of the SMIP to ensure the integrity of settlement, and share our experiences of market design, implementation and operation.</p> <p>The BSC arrangements and processes will also need to evolve in response to changes in customer behaviours and supplier requirements arising as a consequence of the introduction of smart metering. We will continue to work with the industry to progress these changes.</p>	£400k -£600k
3	Smarter Markets: Change of Supply (CoS) Lead by Ofgem	<p>CoS is one of the main processes in the SVA arrangements and there is a great dependency on settlement design to support the process.</p> <p>Ofgem are reviewing CoS, this includes investigating the potential for centralised data collection/aggregation (which underpins the Supplier hub principle). ELEXON will be required to attend any working groups and assess the impacts on Settlement.</p>	£100k - £300k
4	Smarter Markets: Demand Side Response (DSR) Lead by Ofgem	DSR market/solutions will be a major input for requirements of the SVA settlement process. Ofgem is investigating what the regulatory framework needs to be to support DSR activities. ELEXON will be required to attend any working groups and assess the impacts on Settlement.	£100k - £300k
5	Smartgrid Lead by DECC/ Ofgem	<p>Smart Grids are about applying new information technologies to address the increased demands on distribution networks. Deploying these technologies will require new markets/solutions, and involve new participants. There are potentially significant impacts on the BSC arrangements and parties.</p> <p>ELEXON will monitor forums, review outputs/work plans and, where appropriate, propose participation in order to ensure impacts on the BSC arrangements are understood and efficient solutions identified.</p>	£100k - £300k

Continued on the next page

6	Electricity Market Reform (EMR) Lead by DECC	Potential new requirements for settlement information to support the proposals on FiT CfDs, capacity mechanism payments and any other new initiatives. ELEXON continues to work closely with DECC. This activity would not include acting as the EMR payment and settlement body for FiT CfDs or Capacity Mechanism unless a Code change was introduced by DECC.	£200k - £300k
7	European Legislation: Balancing Framework Guidelines (BFG) Lead by EU – via DECC/Ofgem	The EU is constantly developing obligations for standardising and integrating EU wide energy arrangements. In particular is the BFG which refers to imbalance settlement being harmonised across Europe within 3 years of the Network Code coming into force. There are currently 11 other Network Codes (although BFG is the most relevant to BSC)	£100k - £300k
8	Systems integrity – analysis	In light of evolving market arrangements analysis to ensure integrity of systems.	£50k - £100k
9	Electricity Balancing Significant Code Review (SCR) Lead by Ofgem	Major activity for BSC due to the fact the imbalance market may radically change, impacting the basis of settlement. Proposals in this area will be known mid-2013. ELEXON will continue to be intimately involved in any development and delivery work.	£400k - £600k
10	Distributed Generation Lead by DECC	ELEXON will monitor the work by DECC and identify any potential impacts.	£100k - £200k
11	Retail Market Review and Smarter Markets: Consumer Empowerment and Protection Both lead by Ofgem	Ofgem has been considering ways to make energy retail markets in GB work more effectively in the interests of consumers. It is not clear the extent of any impact on settlement and ELEXON will keep a watching brief.	£30k - £100k
Total			£1.6m - £3.1m

Comparison of 2013/14 Annual Budget with 2012/13 Annual Budget

Table 8 Comparison of 2013/14 Budget with 2012/13 Budget

Item	Year to March		Difference £m	%
	2013 Budget £m	2014 Budget £m		
ELEXON Operational	15.90	16.15	(0.25)	(1.6)
Demand Led	1.52	2.75	(1.23)	(81.3)
Contracted	14.28	13.54	0.74	5.2
System Strategy	–	2.42	(2.42)	–
Sub Total	31.70	34.86	(3.16)	(10.0)
Market Development	2.00	2.00	–	–
Governance & Vires	1.50	–	1.50	100.0
Overall Total	35.20	36.86	(1.66)	(4.7)

(Unfavourable variances are in brackets)

Comparison of 2013/14 Annual Budget against estimate of 2012/13 outturn

Table 9 Comparison of 2013/14 Budget against 2012/13 Estimate

Item	Year to March		Difference £m	%
	2013 Projection £m	2014 Budget £m		
ELEXON Operational	15.12	16.15	(1.03)	(6.8)
Demand Led	1.32	2.75	(1.44)	(109.2)
Contracted	13.84	13.54	0.30	2.2
System Strategy	–	2.42	(2.42)	–
Sub Total	30.27	34.86	(4.59)	(15.2)
Market Development	1.50	2.00	(0.50)	(33.3)
Governance & Vires	1.00	–	1.00	100.0
Overall Total	32.77	36.86	(4.09)	(12.5)

(Unfavourable variances are in brackets)

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 11 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 per month;**
 - **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.

Budget

Based on the information in Table 11 examples of charges to BSC Parties are provided.

First, the 2013/14 Annual Budget is set out in Table 11 below.

Table 11 Split of Costs

Assumed Split of Costs for 1 Apr 2013 to Mar 2014	
SVA Costs	4.84
Other Costs	32.02
Total	36.86

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	244
Sales – Notified Contract Volumes (TWh)	876
Purchases – Notified Contract Volumes (TWh)	876
Generation (TWh)	310
Supply (TWh)	305
NHH Supply (TWh)	179
HH Supply (TWh)	114
CVA BM Units	551
SVA Base BM Units	70
SVA Additional BM Units	5
Data Line	67
Comms Software {5 users}	26
Comms Software {additional user}	0
CVA Metering Systems (MSIDs)	800
HH Supply (MSIDs)	119,560
PRS Supply (MSIDs)	29,684,921

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)	0.008
Gen Energy SVA (£/MWh)	0.008
Main Charges	
Energy fee (£/MWh)	0.04562

Table 14 Cost Recovery by Item

Charge Item	BSC	
	(£m)	% of Total
Specified Charges		
CVA BM Units	0.66	1.8%
SVA Base BM Units	0.08	0.2%
SVA Additional BM Units	0.00	0.0%
Data Line	0.56	1.5%
Comms Software (total)	0.39	1.1%
Contract Traded	1.05	2.9%
CVA Metering Systems	0.48	1.3%
Membership Fee	0.73	2.0%
SVA		
HH SVA Ops (£/msid/month)	1.00	2.7%
NHH SVA Ops (£/NHH MWh)	1.41	3.8%
Gen Energy SVA (£/MWh)	2.42	6.6%
Main Charges		
Energy fee (£/MWh)	28.06	76.1%
Total	36.86	100.0%

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