5 July 2019

Dear BSC Party,

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 5

I am very pleased to provide the latest update from ELEXON's Board to BSC Parties.

The energy sector is undergoing a multi-dimensional transformation. This letter describes some of our thinking on the changing energy landscape and the activities we are undertaking to help deliver several of the ambitions of Government, the Regulator and industry by innovating for the benefit of energy consumers.

As in previous letters, the Board's focus is on explaining ELEXON's strategy, our Foundation Programme and governance, and also what we have been doing to maintain and develop relationships with our various stakeholders.

STRATEGY

Codes Review

In my last update, I welcomed the review of codes and code governance launched by BEIS and Ofgem. This has been very much at the forefront of the Board's thinking, in particular considering what might be pragmatic and achievable solutions for the Codes Review that will benefit industry and consumers.

In our view the current Codes landscape and framework are not fit for purpose. They are highly complex and fragmented; they can inhibit innovation; and do not facilitate good coordination across codes and code bodies.

We have been arguing for fundamental changes through simplification of the central arrangements and codes for a number of years, including during the CMA inquiry; to that end, we have shared our recommendations with BEIS, Ofgem and industry through a series of workshops and meetings and published our proposals for consolidation of the current eleven main energy codes (and code bodies).

We have proposed a "Three Code Model" – bringing the current codes together across fuels alongside a number of suggestions on 'quick wins' that we believe can be 'no-regret' improvements to the code governance under the current model and landscape while wider changes are being implemented.

Once consolidated to fewer codes, the managers of those codes should then be responsible for their further simplification. Our proposals are set out in the paper published by ELEXON and available on our website.

While the Codes Review is ongoing, there is an immediate opportunity to commence the consolidation of code management functions through the Retail Energy Code (REC). We continue to engage with Ofgem on the development of the REC.

We are also mindful that Modification P365 enabled ELEXON to bid for the REC Code Manager role, and we look forward to assessing this opportunity as more information emerges over the coming months.

Enabling innovation and new business models

At the heart of ELEXON's strategy is a commitment to supporting innovation and new business models. We see it as our responsibility as Code Manager of the BSC, working with the Government, Regulator and industry, to ensure the balancing and settlement arrangements accommodate

consumer-facing changes in a more agile and responsive manner. ELEXON has embarked on a number of activities in support of this strategy including:

- **Opening up the balancing mechanism:** We are already introducing changes to the settlement arrangements and to our systems to enable smaller organisations such as aggregators to participate in the GB Balancing Mechanism for the first time and we are extending this to providers based in the EU via the Project TERRE changes;
- **Aiding new business models:** We are looking at how 'behind the meter' activities can be accommodated within settlement to give the right pricing signals to support those new business models and we are progressing, via a Modification (P379), our concept of enabling consumers to have more than one electricity provider ('meter splitting');
- **Enabling Market Wide Half Hourly Settlement (MHHS):** ELEXON is playing a leading role in the design for Ofgem of the new Market-wide Half-Hourly Settlement arrangements;
- **Providing Expertise to new market solutions:** We are also making significant contributions to the industry-wide Faster Switching programme, EV Energy Taskforce, Energy Data Taskforce and ENA's Open Networks project on the DNO to DSO transition, to mention just a few key sector initiatives.

FOUNDATION PROGRAMME

The Board has continued to focus on our multi-year programme of re-designing the BSC systems in order to adapt our existing technology platforms and services to meet the future needs of our customers. The programme will re-architect our central systems with the aim of delivering a flexible, digital, scalable and open platform.

The Board has taken a very active interest in supporting the progress of this programme, and regularly reviews its performance. The Board has participated with the Executive in meetings at the most senior level with National Grid, Ofgem and BEIS, explaining the benefits to industry of the programme and seeking their support, as well as maintaining good high level contact with CGI, our systems integrator.

We note that the current programme plan is on track (although the recent request for a delay to TERRE by some EU TSOs may lead to some re-planning).

More generally, ELEXON is working collaboratively with BSC Parties and other key stakeholders across the industry to shape and design improved processes and customer interfaces that are for the benefit of the market.

These include the changes required to enable Wider Access to the Balancing Mechanism as well as for TERRE and the digitising of the BSC Party Registration processes and should result in increasingly agile systems that can more swiftly respond to the ever increasing demand for change.

GOVERNANCE

In my last letter I referred to the appointment process that we were running to identify two new industry non-executive directors.

We were delighted to appoint, in March this year, two new Board members in Sara Vaughan and David Titterton. Sara is Political and Regulatory Affairs Director at E.ON UK and David is Energy Services Director for Npower.

They both bring a wealth of experience in the electricity industry to the company and I look forward to introducing them to those of you who can join us at the Annual BSC Meeting on 11 July.

As in previous years, the Annual BSC Meeting is a key forum through which ELEXON's Board can engage with stakeholders and demonstrate its accountability to BSC Parties. Not only will Parties have the opportunity to ask questions of me and the Board (and the BSC Panel) but Parties have the right to vote to confirm (or not) the appointment of those ELEXON Directors who were appointed during the last year.

I strongly encourage all Parties to attend and to exercise your right to vote; those entitled to vote should already have received information on how to do this. If you can't attend, but are entitled to vote then you can still do so by appointing a proxy who can exercise your vote on your behalf and in accordance with your instructions.

We certainly have some high quality speakers for the day. This year we are delighted that Joanna Whittington (Director General, Energy & Security, BEIS) and Mary Starks (Executive Director, Consumers & Markets, Ofgem) will both be speaking including about the Codes Review, and have indicated they will take questions.

I would also encourage Parties to read the Annual BSC Report which we have recently published in advance of the Annual BSC Meeting and which includes much useful information on ELEXON's performance over the last year. In particular, ELEXON always seek to ensure that we are providing our services efficiently and economically for BSC Parties.

With our continued focus on efficiency the 2018/19 financial year BSC expenditure was £39.8m, representing a £3.8m saving (nine per cent) against the agreed annual budget of £43.6m. In line with ELEXON's not-for-profit status these savings were returned to BSC Parties.

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

Yours faithfully

Michael Gibbons CBE FEI

Chairman

On behalf of the ELEXON Board