

ELEXON

ELEXON LIMITED

Annual Report and Financial Statements

Company registration number 3782949

Public

31 March 2022



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1. **Officers and Professional Advisers**

Directors

Michael Gibbons	(Chair)
Mark Bygraves	(Chief Executive Officer, resigned 31 October 2021)
Clare Duffy	(Non-executive)
Anne Heal	(Non-executive)
David Rigney	(Non-executive)
David Titterton	(Non-executive)
Sara Vaughan	(Non-executive except 1 November 2021 to 3 April 2022 when Interim Chief Executive Officer)
Simon McCalla	(Chief Executive Officer, appointed 4 April 2022)

Company Secretary

Nicholas Brown

Registered Office

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Bankers

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Auditor

BDO LLP
Chartered Accountants and Statutory Auditor
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2. Report of the Chair and Chief Executive Officer

a. Report from the Chair

The Balancing and Settlement Code (BSC) Annual Report for 2021/22, which accompanies Elexon's Financial Statements, highlights work by Elexon and the BSC Panel to deliver our corporate purpose 'Serving at the heart of the energy industry, building a path to Net Zero'.

I believe that this account of Elexon's work demonstrates strong and effective code management. This is particularly relevant and important at a time when the performance of all code bodies is under scrutiny in the context of the announcements by Government and Ofgem of the next steps in their review of the industry codes landscape.

In April 2022, the Government and Ofgem published their views on the Future System Operator (FSO) role as well as the code arrangements. Both of these initiatives have significant consequences for Elexon. The Government and Ofgem have decided that the FSO will be a new public body which is independent of National Grid plc. As Elexon is owned by National Grid ESO, the FSO reforms will definitely have an impact on us.

The proposals for an FSO (published in July 2021) rightly recognised that Elexon's independence is of value to Government, Ofgem and the industry, and should be maintained, as well as the need to retain Elexon's accountability to industry. There will be a further consultation soon on the ownership arrangements for Elexon and we look forward to engaging in this.

The Government and Ofgem want code managers to be more empowered. They will be licensed by Ofgem and code panels will be removed, to be replaced by stakeholder engagement fora. As a result, the code managers will be responsible for playing an enhanced role in the change process, and delivering the strategic direction set by Ofgem.

Elexon has been a strong supporter of reforming the arrangements for central services, with the aim of achieving simplification and consolidation. Along with many others in the sector, we welcome the direction that has been set. Having more empowered, end-to-end code managers will speed up the delivery of rule changes. We need an adaptive and agile change process to deliver change efficiently and effectively. This is important, as sweeping reforms to code rules will be needed to support Net Zero.

A fully independent FSO should also put an end to any concerns about potential conflicts of interest between the electricity System Operator and National Grid. We look forward to supporting the implementation of these changes, and we will continue to make the case for consolidating the codes themselves. The code arrangements need to be easier to navigate for energy stakeholders, and they must also better facilitate strategic changes.

The dramatic increases in wholesale prices over the past year, and the war in Ukraine have increased Government's focus on security of supply. A new energy security strategy was published in April 2022, which increases targets for the roll out of wind generation and sets an ambition for building up to eight new nuclear reactors. Elexon, through its subsidiary, EMR Settlement Ltd (EMRS) could have an important role to play in this. The Low Carbon Contracts Company (LCCC) is envisaged to be the settlement agent for the Nuclear Regulated Asset Base scheme. P435 'Enabling EMRS to undertake preparatory work for potential future settlement services to LCCC' was raised by LCCC and proposes to allow EMRS to support LCCC in development of the scheme.

Later this year, my tenure as Chair of Elexon's Board and the BSC Panel will come to an end. I feel very privileged to have served in this role for the last nine years, especially because I am immensely proud of the work that has been done by Panel members past and present, and by my colleagues in Elexon. Their expertise, insights and professionalism have helped to ensure that the BSC and Elexon's services are

very highly regarded. The Senior Independent Director and the Deputy Chair of the Panel will now lead on the appointment of the new Chair. There have been a number of other changes within Elexon. In October 2021, we said farewell to Chief Executive Mark Bygraves, after seven years in the post and 10 years in total working for the company. Under his leadership we continued to provide best-in-class customer service, and Elexon established (and continues to successfully deliver) the EMR services mentioned above. On behalf of the Board and the Panel and everyone at Elexon, I thank Mark for everything he has done, and wish him well for the future.

Elexon Board member Sara Vaughan served as Interim Chief Executive from November 2021 until April 2022 and I would like to thank her for the major contribution she made to the organisation in such a short space of time. I would also like to give a very warm welcome now to Elexon's new Chief Executive, Simon McCalla, who comes to us with significant experience in delivering technological change, and managing stakeholder and customer-focussed organisations with many similarities to Elexon.

In June 2022, David Rigney, Chair of the Audit and Risk Committee and an independent Non-Executive Director of Elexon's Board, leaves the post after nine years of service. We have benefitted greatly from David's expertise in financial services and his strong accounting and governance experience, and we thank him for his outstanding contribution. We also welcome David's successor, who is Tim Fitzpatrick, an experienced Audit Committee Chair, also with a strong financial services background and significant experience in digital services and technology.

In conclusion, this has been a year of unprecedented challenges for the sector. The need for BSC Parties to deal with the impact of the pandemic and then manage record spikes in wholesale prices, have both been huge challenges, to which I believe the BSC has responded well.

As I have highlighted, major reforms to the industry governance arrangements will be implemented in the next few years, which will change the energy landscape and our role in it. However, one thing will be constant, and that is that Elexon's strong leadership and focus on delivering the best possible service for our customers will remain our priority.

2.2 Report from the Interim Chief Executive – Sara Vaughan

Supporting our customers as wholesale prices increased and Suppliers exited the market

The past year has been one of the most challenging that the energy sector has seen since before the introduction of the competitive market.

Increasing global energy demand, including as part of the COVID recovery, lower than expected gas storage levels in Europe and the impact of the devastating conflict in Ukraine resulted in wholesale prices increasing to record levels.

The GB energy market has been under severe pressure, with 24 Suppliers having failed between April 2021 and the end of March 2022. During this time we have been predominantly focused on supporting the BSC Parties that remain in the market, whilst working with Ofgem to manage the exit of the companies through the Supplier of Last Resort arrangements. As a result we have made sure that 2.4 million customers were transferred to other Suppliers without delay. In addition, the first ever Energy Supply Company Administration (ESCA) Order was designated for Bulb Energy Limited in November 2021, which placed the company in special administration. Since then, we have been providing support and guidance to the administrator on BSC compliance.

Against the background of the difficult market conditions, during the fourth quarter of 2021 we took steps to ensure that we had robust processes in place to forecast and manage the impact of Supplier failures on Elexon Clear's cashflow (Elexon Clear is the service we use to manage all of the main Settlement transactions). This was designed to enable us to provide notice to Parties in advance if the BSC Shortfall Amount mechanism needed to be triggered. In October 2021, the Panel consented to an increase in Elexon Clear's overdraft facility from £1m to £5m, to help us to manage the impact of short-term BSC Party defaults. This increase enabled the avoidance on some 20 occasions between 1 November 2021 and 31 March 2022 of events that would otherwise have been BSC Shortfall events.

Quicker adjustments to the Credit Assessment Price (CAP)

The credit arrangements and payment terms in the BSC are stringent so as to afford protection for BSC Parties against mutualisation of payment defaults when a Supplier fails. Over the past year the CAP, which is used to determine a Party's energy indebtedness, rose to record levels, as it tracks wholesale prices. It places a financial burden on BSC Parties in making sure that they have adequate credit arrangements in place. However, it also offers protection to other BSC Parties by ensuring that those arrangements are in place. In October 2021, following a proposal from Elexon, the Panel approved an alternative process which means that Elexon reviews and adjusts the CAP every two weeks (both upwards and downwards). This is so that the arrangements respond quickly to the 'fast changing market' conditions to smooth the impact that CAP changes have on Parties.

Managing our budget efficiently

We are committed to managing our costs as efficiently as possible. Although our overall budget increased from £83.7m in 2021/22 to £98.2 million for 2022/23, this was driven by the need to continue our investment programmes and deliver Market-wide Half Hourly Settlement (MHHS). MHHS alone accounted for around one third of our total 2022/23 budget but is estimated by Ofgem to deliver net consumer benefits of up to £4.5bn between 2021 and 2045. At the same time we are reducing our spending on 'regular' BSC activity by almost 9.6% (£6.6m) compared with 2021/22.

Notwithstanding the mandatory nature of much of our costs, we fully recognise that, in the current market conditions, any increase in our budget is not welcome. In November 2021 we asked consultants Credera to benchmark costs for our internal departments against similar organisations in the public and private sector. Overall, Credera found that our costs are largely in line with our peers, despite the fact that our major investment programmes are increasing our costs.

Delivering our digitalisation plan

Feedback to our 2021 customer survey has highlighted that BSC Parties want us to keep up progress on modernising and digitalising BSC systems.

During 2021 we continued the roll out of Kinnect, our new cloud platform. This included new functionality for the Customer Solution and starting the migration of data from the ageing Balancing Mechanism Reporting Service to our new Kinnect Analysis and Insights Solution. We have also been preparing for the migration of the Settlement Administration Agent (SAA) to the Kinnect Settlement Solution in autumn 2022. This is important, as the SAA calculates the daily Settlement Runs. More detailed information on the Kinnect milestones appears in our 2022/23 business plan.

At the end of March 2022, we launched the first version of the BSC Digital Code, which digitises around 9,000 pages of BSC documents and brings them together in an easy to use, online format. It also provides a user-customisable search function. This development is geared not only toward stakeholders, but also to Exelon's own staff, who will no longer have to search through PDFs of code documents to find references or key clauses. Overall the Digital Code will make interacting with the BSC much easier and more efficient.

Supporting Net Zero through changes to the BSC

Developing and implementing BSC changes is one of the ways in which we deliver on our corporate purpose 'serving at the heart of the energy industry, building a path to Net Zero'.

In June 2022 a breakthrough BSC change was implemented: P375 'Settlement of Secondary BM Units using metering behind the site Boundary Point' will create further opportunities for aggregators and demand-side response (DSR) providers to compete in the provision of balancing services.

In line with the Energy Data Taskforce recommendations, since June 2021, all BSC data has been presumed 'open' to anyone whether they work in the sector or not, unless the Panel decides otherwise. This follows implementation of P398 'Increasing access to BSC Data'. We are committed to open data access as it will help existing and future market players to develop new products and services for consumers.

Changes which support regulatory reform

We have been working with industry to integrate changes required by Ofgem's Targeted Charging Review (TCR). We implemented P402 'Enabling reform of residual network charging as directed by the TCR' in the February 2022 release and in March 2022 we successfully delivered the hugely expanded Market Domain Data set to support the TCR. It marked the completion of two years' worth of work, involving significant industry testing and co-ordination.

Preparing for Market-wide Half Hourly Settlement, a key reform for Net Zero

Preparing for implementation of Market-wide Half Hourly Settlement (MHHS) has been, and will remain, one of our highest priority work areas. Since Ofgem confirmed in April 2021 that Exelon would manage the implementation of MHHS, we have worked quickly to establish the MHHS Programme, which separates and 'ring-fences' the Programme from the rest of Exelon's work.

The MHHS Programme is facilitating implementation of MHHS on behalf of the industry. As part of the setting up and mobilisation phase, the MHHS Programme created, consulted on and agreed the new governance arrangements to support Programme decision making. The Programme Steering Group (PSG), the overarching decision-making authority, includes representatives from energy companies and consumer groups, as well as Ofgem and Exelon, and is accountable to the industry.

As a market participant in the MHHS Programme, Elexon needs to overhaul BSC systems in order to deliver MHHS, and in summer 2021 we began the Helix Programme. This Elexon Programme will develop three new services and a new system to manage the vast increase in half hourly data that we will need to process once MHHS is live. The new Helix solutions will be built onto the Kinnect platform, taking advantage of its flexible and scalable cloud architecture. More information on Helix is available in our 2022/23 business plan.

Elexon's people are its biggest asset

I joined Elexon as a non-executive director in March 2019 and took over as interim Chief Executive in November 2021, after Mark Bygraves, the former Chief Executive, stepped down following seven successful years in the role. I then handed over to Elexon's new Chief Executive, Simon McCalla in April 2022. I wish Simon all the best in his new role and look forward to supporting him as a fellow Board member.

Both the Executive and Board were delighted to confirm Yasmin Mouse as the new Director of Finance and Commercial and member of the Executive team in December 2021, following a successful period covering that role since June 2021. Yasmin has been working for Elexon for 14 years and has been able to apply that knowledge and experience immediately in her new position.

We depend on the skills of all our colleagues to achieve our goals, and this is why our People Strategy, to attract, retain and motivate our staff, is an essential component of our success. More detail on our People Strategy is available in our 2022/23 business plan.

Industry developments and market arrangements

Looking forward, it is clear that, as an industry we are in a critical period and, as a company, we face some particular challenges. We must complete our Kinnect digital transformation, deliver MHHS implementation and adapt our own systems for MHHS, all within the next three and half years.

We were very pleased that Ofgem also recently decided that Elexon should initially govern the Data Integration Platform for MHHS through the Balancing and Settlement Code. This will be reviewed as part of the overall conclusions to the BEIS/Ofgem Energy Code Reforms, which are another key development for Elexon and industry governance as a whole. As a subsidiary of National Grid ESO, albeit governed independently of it, we are also impacted by the published proposals that the ESO should transition to becoming an independent Future System Operator, sitting within the public sector. We must adapt to these and other impending reforms to industry governance arrangements, such as the recently announced Review of Electricity Market Arrangements.

Furthermore, although we have consistently been one of the top ranking customer service providers among code bodies, we know we can go further. We have launched a new customer charter, which commits us to a more standardised approach to investigating and responding to customer feedback, improving our training on the BSC and making sure our communications are clearer.

I am lucky to have had the opportunity to gain a greater understanding of Elexon and how the organisation works during my time as Chief Executive, especially at such a challenging time for us and for industry. BSC Parties will be counting on us to continually and consistently deliver and improve our services. The expertise and commitment of Elexon colleagues and their hard work is what has made, and will make, that possible.

2.3 Report from the Chief Executive Officer – Simon McCalla

I started as Elexon's new Chief Executive at the beginning of April 2022 and I am excited to be joining the company, and the energy industry at what is both a challenging and critical period for all concerned. The energy sector has a central, driving role in the pursuit of a carbon-free future and while striving to achieve that goal, it is battling with political and economic challenges that affect all participants.

Major changes to governance

My first few weeks have been a very busy time for the organisation. As mentioned by the Chair in his report for the Financial Statements, during the first week of April BEIS and Ofgem announced the next steps for the Future System Operator (FSO) role, and some progress on the codes review.

The change of ownership structure to create a fully independent FSO will impact on Elexon, as we are wholly owned by National Grid ESO. I am looking forward to being part of the industry-wide conversation on our future ownership options and what this will mean for us. I know that whatever the outcome, the team and I are committed to ensuring that we continue to serve our customers and stakeholders as we have done for the past 21 years.

In mid-April the government announced the British Energy Security Strategy. This exciting and challenging strategy has major implications for the sector as it sets ever more ambitious targets for the deployment of low carbon generation. BEIS also announced a review of electricity market arrangements in the wholesale sector. Together with colleagues I look forward to working with BEIS and Ofgem to help implement the process and governance reforms.

Working to improve our services

Elexon has a reputation for excellent service and over the past few years we have performed very strongly in the rankings on customer service for the code bodies. I recognise however, that we can always do more, and we need to keep working to deliver the best possible value for money.

One of the areas we will focus on is working with our customers to identify where we could improve our services, by using innovation, or taking different approaches to familiar challenges. This will involve making better use of our data to find and fix errors more quickly, and improving how we share our data. Our move towards a fully 'digital code' will be an exciting stepping stone in the way in which we understand, consult and manage the balancing and settlement code

Experience in managing critical infrastructure

Although new to the energy industry, I have over 30 years' experience in technology, strategy and commercial leadership across a wide variety of sectors. I have managed companies that look after critical infrastructure, in the same way that Elexon manages the vital Settlement processes and governance of the BSC. For more than a decade I have worked in leadership roles for companies that have been stakeholder-led businesses, governed and managed much like Elexon. I am looking forward to understanding the unique challenges of Elexon and the BSC, whilst hopefully sharing my insights with colleagues and our customers.

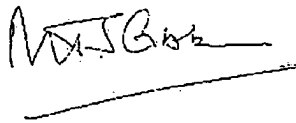
Meeting our customers

Since joining Elexon, I have been meeting BSC Parties to learn more about their companies and to understand their role in the energy market. I want to thank everyone for their warm welcome and for the open and honest conversations that we have had. The team at Elexon is fully aware that this is a very challenging and unprecedented period for the energy sector, with high levels of price volatility in wholesale markets. I especially want to understand how this is impacting on our customers, what we can do to support them, and if there is anything we can do better.

In the Annual BSC Report for 2021/22 which accompanies the Financial Statements, there are examples of how Elexon is playing a central role in developing and delivering reforms such as MHHS and code changes which provide new routes to market for smaller, low carbon generators. Our focus is on improving our services for our customers and supporting progress to Net Zero. These are therefore exciting and very interesting times, and I look forward to working with all of my new colleagues, and our customers to help transform the energy sector.

Michael Gibbons CBE

Chair



8 June 2022

Simon McCalla

Chief Executive Officer



8 June 2022

Sara Vaughan

Interim Chief Executive Officer



8 June 2022

3. Strategic Report

Our business model

Exelon is a data platform and data services company that is vital to the smooth operation of the wholesale electricity market. We administer the electricity balancing and settlement arrangements for Great Britain. These affect all the companies who generate and supply electricity and the 28 million households who use it. Exelon compares how much electricity generators and suppliers said they will produce or consume with actual volumes. We work out a price for the difference and invoice and credit funds accordingly. This involves processing 1.25 million meter readings every day and handling customers' funds each year. Many charges across the industry are derived from our data.

In addition, the Exelon Group provides other services for the industry. Most significant of these are the settlement services provided by EMR Settlement Limited to the Low Carbon Contracts Company, and to the Electricity Settlements Company, to enable the development of low carbon generation via Contracts for Difference, and to maintain security of supply via the Capacity Market.

In April 2021, Exelon, as the code administrator for the BSC, became responsible for the programme management of MHHS implementation in the capacity of SRO (Senior Responsible Officer). Prior to that Exelon had been working with the industry to develop and agree the TOM (Target Operating Model) for MHHS.

Exelon is a non-profit organisation and the value that we generate for our stakeholders is based on our delivery of reliable, cost effective and efficient services; our support for, and enablement of, market change and innovation; and the expertise of our people. Consequently, we generate and preserve value over the longer term by:

- investing in modern technology to create an IT platform that is scalable, flexible and stable to support new services in an open and accessible way, and is an essential information asset for the energy industry and beyond, enabling new innovative products and services;
- leveraging our existing skills and experience to enable us to explore new market opportunities for the benefit of the energy industry, innovators and consumers;
- continuing to focus on the personal development of our people in order to build capability in the business to support the BSC and EMR, in a rapidly changing energy market, and to aid the Government in their Net Zero ambition.

Our purpose, vision and strategy

Following a re-focus in 2020, our purpose is: "Serving at the heart of the energy industry; building a path to Net Zero". Our vision is to create the leading provider of essential market services to the GB energy sector by 2025, for the benefit of market participants and their customers.

Our strategic focus remains on:

- retaining our existing roles as BSC code manager, and BSC and EMR settlement provider, by continuing to deliver BSC and EMR services to a market leading standard
- securing new settlement related activities, where Exelon's knowledge, skills, processes, established governance practices and IT systems can streamline and help bring the new services to the industry in a timely and cost-efficient way
- contributing to Government and Ofgem thinking around new central services structure and, as a part of this new structure, simplification and consolidation of the central bodies' space for the benefit of industry and its customers
- enabling innovation by leading on central market design issues where they relate to or impact settlement, demonstrating our expertise and insight, design and delivery capability.

One of the most important pillars supporting Exelon in reaching its vision is our people and their continued deep expertise in the market arrangement. Our people strategy sets the direction for ensuring that all Exelon colleagues are geared up to help us deliver that vision and meet the challenges of the future energy system.

STRATEGIC MANAGEMENT

Strategic alignment and support to Government and Regulator policies and new initiatives

Our strategy is guided by UK's Net Zero ambition, Government policy, energy industry trends, digitalisation and other energy industry developments. The GB energy system, and in particular the power sector, faces a number of significant challenges, in particular the need to help support the country's move to a Net Zero economy by 2050.

At the time of such significant changes to the energy industry structure, policy and regulation, Elexon remains closely focused on energy policy and new initiatives in energy regulation. This allows us to interpret new policy and regulatory initiatives in their early phases and, therefore, develop changes to the BSC arrangements, Elexon processes and systems to facilitate and support the required industry transition.

Building on the Government's Energy White Paper (published in December 2020), a number of new policies and consultations were published in July 2021. Elexon continued to share its expertise and knowledge with the Government, Regulator, and the wider energy industry through our responses to consultations, knowledge sharing sessions and contributions to the Government and Ofgem initiatives, namely:

- Future System Operator reform and energy industry Codes Review
- the ongoing Market-wide Half Hourly Settlement (MHHS) reform including the EDA (Event-driven architecture)-based DIP (Data Integration Platform) system development
- the need to accommodate distributed generation, battery storage and electric vehicles
- system integration and harmonisation (bringing out the synergies) between the power sector and other economy vectors/sectors such as heat and transport
- the importance of establishing a more digitalised energy system.

Elexon and its subsidiaries form a not-for-profit group which (save for our subsidiary EMR Settlement) recoups its costs from BSC Parties in accordance with the terms of the BSC. All licensed electricity generators and suppliers in Great Britain are obliged to become signatories to the BSC. Other companies may choose to do so. EMR Settlement recoups its costs under a contract for services with LCCC and ESC.

The BSC requires Elexon to produce an Annual BSC Report by no later than 30 June each year. The Annual BSC Report includes full details of Elexon's performance as BSCCo during 2021/22 including performance against our budget and a range of financial and non-financial key performance indicators. The Annual BSC Report for 2021/22 is available on the Elexon website (www.elexon.co.uk).

Turnover of the Group for the year to 31 March 2022 was £73.9m (2021: £55.8m) including £6.0m (2021: £5.8m) of EMR income see note 11.2. Excluding the EMR income, turnover in relation to BSC was £67.9m compared with £49.9m in the previous year. The increase in turnover (or expenditure) of the Group from £55.8m to £73.9m was mainly due to our increased resources and investment into delivering our Kinnect, Helix and MHHS programmes. The increase in cash from £134.3m to £541.7m is due to an increase in parties' credit cover requirements due to higher energy prices.

BUSINESS PERFORMANCE

After taking account of directly recoverable pass through costs (communication lines and EMR costs), the total cost to be recovered through BSC Section D charges in 2021/22 was £67.9m, compared to the 2021/22 annual BSC budget of £83.6m (both net of EMR). This year, COVID-19 restrictions have continued to have an impact on Elexon's costs resulting in savings on office overheads. A number of modifications budgeted for 2021/22 also did not materialise such as P402 (Enabling residual network charging for TCR), which no longer required system development changes, Brexit also removed the need for Manually Activated Reserve Initiative (Mari) and Trans European Replacement Reserve Exchange (Terre). Whilst we have escalated our work on the Kinnect and Helix platform, we have also experienced project delays such as P376 (Utilising the baseline methodology to set Physical Notifications for Settlement of Applicable Balancing Services), which has resulted in costs falling into the next financial year. For more details on our performance during 2021/22, please refer to the 2021/22 Annual BSC Report which will be published before 30 June 2022. The report will be available on the Elexon website.

Looking forward, the Group budget for 2022/23 has been set at £98.2m. For more details of our budget for 2022/23, please refer to our 2022/23 Business Plan on the Elexon website (<https://www.elexon.com/documents/about/finances-report-policies/business-plan/2022-23/elexon-business-plan-2022-23/>)

As the Group is not-for-profit, costs and interest charges are exactly matched by turnover for the year. During the year, based on our forecasting, we adjust our charges (rather than continuing to charge the equivalent of our budget) seeking to match our revenue to our costs. However, as forecasting cannot be entirely accurate, there is, for the 2021/22 financial year, as in every year, a reconciliation of BSC costs charged to Trading Parties based on the final audited costs and interest charges shown in this report. Consequently a credit of £3.3m for the 2021/22 financial year will be returned to BSC Trading Parties in August 2022.

	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2018
	£'000	£'000	£'000	£'000	£'000
BSC Turnover	67,958	49,943	41,422	40,531	35,261
EMR Turnover	6,001	5,833	5,307	4,844	4,984
Cost of Sales	(73,957)	(55,783)	(46,777)	(45,390)	(40,249)
Net Interest Income	(2)	7	48	15	4

Table 1: five-year comparison figures

CORPORATE SOCIAL RESPONSIBILITY

Our Corporate Social Responsibility (CSR) Strategy is built around four themes (Environment, Community, Workplace and Marketplace). The strategy ensures that we behave in a sustainable, socially and environmentally responsible manner while supporting our ambition, values, brand and business objectives.

Environment

A key part of our strategy is our support for initiatives that progress the UK's Net Zero ambition, including with respect to Market-wide Half Hourly Settlement and other BSC changes such as P375 and P398. Further information on these can be found in the CEO's report on page 6. Elexon's corporate purpose is 'Serving at the heart of the energy industry, building a path to Net Zero'. This statement reflects the importance we attach to this topic and is why we prioritise enabling innovation within the industry, and facilitating the changes needed in the energy industry to achieve Net Zero. Some of the key activities we are undertaking in support of this purpose is investing in Elexon Kinnect, our digital platform, which will allow the BSC to keep pace with the rapid rate of change that will be needed to support Net Zero. In addition, we have introduced and support a BSC sandbox which enables trials of potentially innovative products or services in a live market environment.

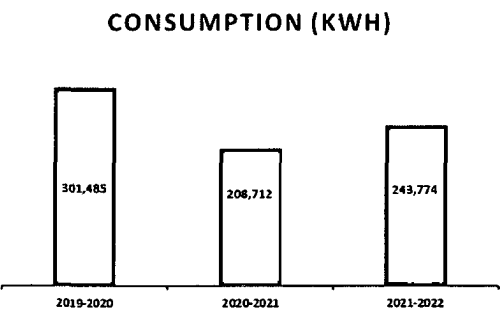
The rest of this section is, however, focussed on how Elexon manages its own business in an environmentally responsible manner.

Through our environmental policy we provide colleagues with clear guidance on how we manage our impact on the environment in our day-to-day work activities. We also offer guidance on their responsibility to help deliver the policy. We aim to reduce our environmental impact through colleague awareness campaigns, and by monitoring our energy consumption and recycling our waste. We also offer colleagues opportunities to use environmentally friendly means of transport. This includes our cycle to work scheme, where Elexon colleagues can spread the cost of purchasing a new bike through salary contributions, and a salary sacrifice scheme for Electric Vehicles.

In our office we use smart metering technology to help us identify where we can make energy savings. By using lighting controls, managing the running times of air conditioning units and turning off IT equipment when it is not in use we are reducing our energy bills. The energy supply to Elexon's office is 100% renewable and our office has an A+ rating for energy efficiency.

Climate change

For the period ending 31 March 2022 our annual energy consumption was 243,774 kWh (2021: 208,712 kWh).



The energy consumption data is based on meter readings from the Group's office. Our renewable electricity tariff is certified by the Carbon Trust to be compliant with the Greenhouse Gas Protocol Scope 2 Guidance. This means Elexon can report zero carbon emissions for purchased electricity when reporting using the market-based method. This is a Carbon Trust method which allows companies to quantify their emissions based on how much carbon is emitted by generation of electricity that they purchase from suppliers.

Elexon's energy usage in 2021/22 was 3,296 kWh per £1 million revenue (2020/21: 3,747 kWh)

We have seen an increase in energy usage this year as our business begins to return to the office, however our energy consumption is below our pre-pandemic level. We have started some improvements to our lighting system to make it as efficient as possible, this work is ongoing.

Community

At the beginning of January 2020, we started a three year partnership with two charities, Cancer Research UK and the Mental Health Foundation, which were chosen by Elexon colleagues. Between 1 April 2021 and 31 March 2022 Elexon raised more than £2,100 for the two charities. Between April 2022 and March 2023 we aim to raise over £1,500 for each charity through various fundraising activities. As well as supporting the charities through fundraising we encourage our employees to use volunteering days, or to participate individually in charitable activities. From running marathons to charity boxing matches, and cycling, our colleagues are frequently willing to raise money for both the company's chosen charities and personal causes.

Workplace

As a business, we believe our people are our greatest asset, and we depend on the skills and commitment that they bring to the organisation. We recognise that to provide a great place to work, we need to retain our focus on health, well-being, flexible-working and personal development. The support we offer to colleagues includes promoting advice from the Mental Health Foundation and our Employee Assistance Programme. We ran several awareness campaigns for mental health for colleagues over 2021/22, and we also have a vibrant community of Mental Health First Aiders. Another key area of focus over 2021/22 has been on Equality, Diversity and Inclusion, and our Diversity Forum members meet regularly to discuss how to continually improve in these areas.

Helping colleagues to develop in their career

We generate and preserve value over the longer term by continuing to focus on developing our people's expertise. This is so we can build capability in the business as we gain a better understanding of the skills our people need to perform in a rapidly changing energy market. It also means we are helping staff to develop in their career and improving Elexon's contribution to energy market challenges.

We do this by:

- Providing training, coaching and mentoring to ensure we achieve the right balance between a high degree of flexibility and the robust, predictable service delivery for which Elexon is recognised
- Maintaining our focus on knowledge sharing and transfer to enable our experts of tomorrow

We communicate and maintain good employee relationships by ensuring that:

- A staff survey is undertaken each year, with any issues found forming part of an action plan for the forthcoming year
- Colleagues have regular contact with senior managers and members of the Executive team. This includes, for example, the regular 'web talks' where the Chief Executive and the Executive team update staff on key issues, and engage with them and monthly Executive stand-up meetings in each Directorate
- We produce a weekly newsletter for colleagues.

Marketplace

We look to ensure that all our suppliers and vendors follow ethical practices. This includes considering their values, CSR responsibilities and environmental practices. We actively look to raise awareness of CSR and influence the practices of our own suppliers. We also insist that contractors that are based in the UK pay their staff at least the London Living Wage. We aim to continually improve our CSR ambitions with existing suppliers so that we can make sure we are aligned. This includes early adoption of new technologies, staying informed and implementing any new requirements resulting from legislation changes. We expect all our suppliers to be compliant with the Modern Slavery Act 2015 and to publish a transparency statement if required.

BUSINESS ENVIRONMENT**Principal Risks and Uncertainties**

The Directors have undertaken a robust assessment of the principal risks facing the company. The table below sets out the principal risks faced and outlines how those risks have been mitigated.

Risk	Risk description	Managing and mitigating the risk
Unable to achieve our strategy due to external circumstances	There is a risk that the achievement of our strategy is frustrated by external circumstances such as: Codes Reform; Change in ownership for ESO, Elexon's parent; industry change, government energy policy changes and the wider geopolitical environment; which may result in the diminution of our role, an inability to achieve our vision and strategy or bring new priorities that may differ from our current strategy.	<ul style="list-style-type: none"> • Ongoing discussions with Ofgem, BEIS, ESO, BSC Parties and wider stakeholders • Monitor relevant legislation or regulation changes that may impact Elexon's strategy • Annual stakeholder survey to assess satisfaction with our services, and review Ofgem's survey to assess our continued licence to operate • Monitor, participate and lead on industry changes. Maintain awareness of developments in market and commercial arrangements, and in technology developments • Consistent communications approach to stakeholders • Progress improvements e.g. governance changes, enable change and innovation, demonstrate leadership and vision
Attract, retain and develop talent	There is a risk of insufficient or inadequate skills and resources to deliver strategic priorities and programmes and operational objectives because of an inability to attract the right talent, retain key resources, manage appropriate attrition, succession planning and develop the right skills. This may result in insufficient bandwidth and capabilities, impacting our service delivery, successful implementation of strategic initiatives and achievement of our vision.	<ul style="list-style-type: none"> • Our Resourcing Leader manages a proactive recruitment and headhunting process, considering predictive resourcing • Ongoing succession planning process and periodic review • Talent management across our talent pool, including our Emerging Leaders and Development programme
Delivery risk of migration to new digital platform	There is a risk that migration of legacy agent services to Elexon digital platform will be delivered late, resulting in damage to our reputation with industry	<ul style="list-style-type: none"> • Programme risk management and governance approach, including a quarterly Transformation Committee • Utilise independent assurance to support due diligence and risk mitigation • Build aligned accountabilities and capabilities into operating model

		<ul style="list-style-type: none"> • Robust contingency planning • Adoption of multi-source development model
Delivery risk of MHHS programme	<p>There is a risk that the MHHS programme fails, experiences delays or encounters other major issues caused by either programme management issues or implementation issues that are the responsibility of other parties, impacting our reputation in industry.</p>	<ul style="list-style-type: none"> • Share programme status with the Independent Assurance Provider (monthly) and ensure robust Programme Party Co-ordinator activity by the programme Lead Delivery Partner • Monthly programme status reporting with the Independent Assurance Provider to support effective coordination across parties and programme leadership by the Lead Delivery Partner • Regular issue management and reporting with attributable parties • The newly introduced monthly reporting to the Elexon Board and MHHS committee for areas of our responsibility (i.e. resources and funding) and the Programme Steering Group.
Volume and complexity of Modifications	<p>There is a risk that the volume and complexity of Modifications, particularly BSC Panel Modifications that are not impact assessed or agreed at Panel, have risks and deadlines that Elexon are unable to manage, resulting in a settlement failure or damage to our industry reputation due to delays to implementation.</p>	<ul style="list-style-type: none"> • Establish and maintain excellent engagement with industry to enable Elexon to anticipate change, manage expectations of Parties to smooth demand where possible, efficient utilisation of internal resource and scale using external resource as required • Portfolio prioritization • Cross-Code change group determines prioritization between strategic and business as usual modifications • Participation in industry change forums to engage with Customer and Digital Operations to ensure impact assessments are undertaken before design is signed off
Cyber attack at Elexon or at service providers	<p>There is a risk that Elexon may not be able to carry out its key business processes and/or some BSC obligations should a cyber attack impact external service provider providing BSC Agent Systems or critical Elexon systems which may have a negative impact on our reputation with industry.</p>	<ul style="list-style-type: none"> • Maintain a business continuity and disaster recovery solution at Elexon and at its Service Providers as a contingency mitigation against a cyber-attack • The Company continues to maintain ISO27001 and Cyber Essential Plus certification and implements identified improvements • Third party annual penetration testing at Elexon and its Service Providers and implement any corrective actions identified • Systems in place to continuously identify and implement improvements • Maintain expert external provider to provide critical response facility in the event of a cyber-attack

		<ul style="list-style-type: none"> • Utilisation of threat intelligence portal to monitor cyber security risks that may pose a threat to Elexon and respond using proposed mitigating actions accordingly • Enhanced threat monitoring and engagement with service providers following the Russia-Ukraine conflict • Regular patching and updating in place
BSC operational failure	<p>There is a risk that there is a BSC operational failure or imbalance on settlement due to sector wide issues (COVID-19, energy price increases, macroeconomic effects, Russia-Ukraine conflict). This could be caused by external service providers or our own operations, which could impact the BSC service, cashflow and have a negative impact on our reputation with industry.</p>	<ul style="list-style-type: none"> • Significant Operational Issue Procedure and processes in place and operational staff training • Operational risk register in place linked to BSC obligations • Operating Model design ensures a clear line of sight and ownership of risk for mitigation • Cashflow controls - Probabilistic cashflow modelling and daily cashflow forecast. Section N of the BSC also protects against cash flow deficits, if required, through a shortfall process. • Disputes process allows a suitable period for remediation of settlement process issues and we have relationship management protocols with industry in place to protect and manage our reputation.

Viability Statement

Taking account of the Company's current position and principal risks, the Directors have assessed the prospects of the Company over a period of three years. The Directors believe three years to be an appropriate period as this is the period in respect of which the Company undertakes financial projections as part of its business planning process.

The funding arrangements for the Company are set out in Section D of the BSC. As a result of the BSC funding arrangements, there is no medium/long term risk of Elexon failing to meet its liabilities. The BSC funding arrangements ensure that all of the Company's BSC costs are funded by BSC Parties. To the extent that there is any short term cash flow risk to the Company, there are robust mitigations in place as described in the Principal Risks and Uncertainties table (page [15]) and the Going Concern statement (page [21]).

The Directors therefore have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. This assessment is based on the assumption that Elexon's funding model remains unchanged. We have no expectation of any change to our funding arrangements.

As regards the BSC arrangements more generally, the electricity market has faced a period of unprecedented challenges with sharply increasing wholesale costs leading to a number of electricity Suppliers being forced to cease trading. The BSC arrangements, which the Company administers, contains mechanisms, which ensure that Elexon is always able to manage the impact of these events on Trading Charge cash flow. These mechanisms include the ability to call on an overdraft, the requirement that BSC Parties provide collateral for their Trading Charge debts and the right to mutualise non-payments so that Elexon can either mutualise debts or reduce the level of its payment liabilities. The Company has undertaken analysis and stress testing in order to ensure that the BSC arrangements continue to operate smoothly and transparently in order to mitigate the impact of Supplier failures on the market.

We have taken additional steps to ensure that we have robust processes in place for forecasting the impact of Supplier failures on the cashflow of our subsidiary, Elexon Clear (Elexon Clear is the BSC counterparty for all Trading Charge and Reconciliation Charge transactions), which will enable us to provide notice to Parties in advance of the BSC Shortfall Amount mechanism being triggered. We have been undertaking stress tests of our systems and processes based on different potential market scenarios and we have, with the BSC Panel's consent, increased Elexon Clear's overdraft facility from £1m to £5m, in order to enable us better to support the industry through our management of short-term BSC Party defaults.

In addition, the Company has been undertaking regular stress and scenario cash flow analysis with regards to the impacts of COVID-19, Ukraine conflict, and Energy Market conditions on the viability of the business. COVID-19 has had minimal disruption to our business and cash flow.

SECTION 172(1) STATEMENT

The Directors consider that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the matters set out in section 172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 March 2022.

In respect of the promotion of the success of the Company 'for the benefit of its members as a whole', the Directors also have regard to the following:

- The purpose of the company is to perform the functions which are ascribed to BSCCo in the Balancing and Settlement Code or otherwise permitted in the BSC. Consequently, and in accordance with section 172(2) of the Companies Act 2006, the Directors consider that their duty is to promote the success of the Company for the achievement of these purposes;
- As a single member company, the Directors do not consider the factor set out in section 172(1)(f) (need to act fairly between the members of the company) is relevant to the performance of their duty under section 172.

Likely consequences of any decision in the long term

Board decisions are taken in the context of the Company's strategy and developments in the UK electricity market, both of which necessitate a long term view. For more details of how we have regard to the likely consequence of any decision in the long term, please see the following:

- The Reports of the Chair, the Chief Executive Officer and the Interim Chief Executive Officer
Strategic Report
 - Our purpose and mission (page 10)
 - Our strategy (page 10)
 - Viability Statement (page 17)

Corporate Governance Statement

- Board Leadership and Company Purpose – sustainability of business model (page 25)

Interests of the Company's employees

Elexon's employees are key to our success and the Board is committed to having an effective engagement strategy with the workforce. For more details of how we take the interests of employees into account please see the following:

- Report from the Chair (page 3)
- Strategic Report
- Our Business Model (page 10)
 - Corporate Social Responsibility (page 13)
- Corporate Governance Statement
- Board Leadership and Company Purpose – culture (page 25)
 - Board Leadership and Company Purpose – engagement with the workforce (page 27)
 - Nomination Committee Report – diversity (page 37)

Fostering the Company's business relationships with suppliers, customers and others

The Company has business relationships with a broad range of stakeholders. Elexon's relationship with BSC Parties, as the Company's funding parties, is particularly key, but we also have critical strategic relationships with NGEN, Ofgem and BEIS. For more details of how we take the interests of stakeholders into account please see the following:

- Report from the Chair (page 3)
 - Report from the Interim CEO (page 5) and CEO (page 8)
- Strategic Report
- Our Business Model (page 10)
 - Our strategy (page 10)
- Corporate Governance Statement
- Board Leadership and Company Purpose – engagement with the shareholders and stakeholders (page 26)

As regards suppliers, there is regular engagement by the senior management team with suppliers which is reported to the Board where relevant. In terms of promoting ethical business practices, the Company has published its Modern Slavery statement and page 14 of the Report (Corporate Social Responsibility) sets out further information of how the Company supports business relationships with suppliers through the promotion of an ethical supply chain.

The impact of the Company's operations on the community and the environment

As regards the environment, and as set out in the Chair's report on page 3 and the CEO's Report on page 5, facilitating the achievement of the UK's Net Zero target is absolutely central to the Company's operations. Details of the Company's approach can be found in those reports. In addition, the Board is committed to reducing the environmental impact of the Company's activities and to making a positive impact in the community. Further information on these can be found in the Corporate Social Responsibility Report on page 13.

Maintaining a reputation for high standards of business conduct

Considering the reputational impact of Board decisions is a key element of Board discussions. . As regards business conduct, the Board considers this through a number of areas set out elsewhere in this Report including:

- Strategic Report
- Corporate Social Responsibility Report (page 13)

- Business Environment - Principal Risks and Uncertainties (page 15)
- Corporate Governance Statement
- Board Leadership and Company Purpose – culture (page 25)
 - Board Leadership and Company Purpose – whistleblowing (page 27)
 - Audit, Risk and Internal Controls – risk management and internal controls (page 32)

Approved by the Board of Directors and signed on behalf of the Board.

Nicholas Brown

Company Secretary

A handwritten signature in black ink, appearing to read 'N. E. Brown', with a stylized flourish at the end.

8 June 2022

4. Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2022.

Going concern

a. During the year, the company received a loan amounting to £10m from National Grid on 6 October 2021 for short term financial support on arm's length basis, which was repaid during the financial year on 28 October 2021. Further, the Group has arranged a £0.1m overdraft facility for Elexon and a £5.0m overdraft facility for Elexon Clear respectively with Barclays PLC at the variable rate of 1.75 percent above the bank's base rate. The Board believe that this provides a secure financial base for the Group for the foreseeable future. Financial risks are also mitigated by the nature of the debtor balances owed, with the Code providing for other BSC Parties to meet the liabilities of any debtor in default; and the provision of the BSC whereby Elexon recovers its costs one month in advance. Due to the unexpected energy price increases, along with the geopolitical situation in Eastern Europe intensifying on February 24 2022, with Russia's invasion of Ukraine, we rightly are being extra vigilant with regards to our cash flow. The Group has no activities in, or relating to, Ukraine. Whilst the war's future impacts are by nature uncertain, at the time of signing this report, no direct impact on the Group is anticipated over the following 12 months. In particular, the rules within the code around mutualisation of any payment defaults, coupled with our ability to defer any non-essential spend reaffirm confidence in our cash flow. The Group has a positive cash flow closing balance in each scenario within the rolling twelve months of signing the financial statements. As a result, the Board considers that there is a reasonable expectation that the Group will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Employees

See Note 11.3 for details on the number of employees and related costs.

Dividends

Under the terms of the BSC, the Company has no power or authority to declare or pay any dividends.

Charitable and political contributions

During the year, the Company made no charitable or political contributions.

Financial Instruments

During the year, the company received a loan from National Grid on 6 October 2021 which was repaid during the financial year and there are no financial instruments that the company holds as at 31 March 2022.

Important Events and Future Developments

Details of important events that have affected the Company since the end of the financial year and future developments are included in the Strategic Report

Qualifying Third Party Indemnity Provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report

Directors

The Directors that served throughout the year were as follows:

Michael Gibbons – Elexon Board and BSC Panel Chair



Michael was appointed as the Chair of the Elexon Board and Balancing and Settlement Code (BSC) Panel in October 2013, reappointed for three more years in November 2016 and again in 2019. Michael's tenure has recently been extended by three months to 31 December 2022.

He spent 11 years at director level with Powergen and has since held a number of other roles. He was Chair of the Government's independent Regulatory Policy Committee from 2009-2017, and in 2007 was the author of the government-sponsored review (the Gibbons Review) of Employment Dispute Resolution Regulations. Michael relinquished chairmanship of the Carbon Capture and Storage Association in 2018. He was President of the Energy Industries Club from 2017 to 2019.

He was appointed to Officer of the Order of the British Empire (OBE) for services to regulatory reform in 2008 and the Commander of the Order of the British Empire (CBE) in 2015.

He is a Fellow of the Energy Institute (FEI)

Board Roles: Chair; Chair of Nomination Committee; Member of Remuneration Committee

Simon McCalla – Chief Executive Officer



Simon has been Chief Executive of Elexon since 4 April 2022. He has more than 30 years' experience in technology, strategy and commercial leadership across a wide variety of sectors. This has included managing companies that look after critical infrastructure, and working in leadership roles for stakeholder-led businesses.

Simon has worked both nationally and internationally on engineering and corporate governance standards, leading an international review of internet security arrangements and more recently a corporate governance review for DCMS/UK Sport of the British Mountaineering Council - the body responsible for all hillwalking and mountaineering activities in the UK. Simon is currently a trustee of the cancer charity – Odyssey.

Simon is a fellow of the British Computer Society

Clare Duffy – Industry non-executive director



Clare Duffy is the Network Development and Electrification Manager for ESB Networks. As part of the senior management team in ESB Networks, her key responsibilities include planning electricity distribution network asset investments, planning distribution customer connections (e.g. demand, renewables, flexibility, generators) and security of supply of the national distribution network.

Clare was appointed to the Elexon Board on 1 November 2015.

Clare is also accountable for Innovation and Electrification activities across ESB Networks. Clare is a chartered engineer with almost 25 years' experience working in the power industry. ESB is a leading independent generator and supplier in the GB market as well as a generator, supplier, network owner and DSO in Ireland.

In addition to her roles with ESB and Elexon, Clare sits on the Executive Board of Engineers Ireland and previously chaired Energy UK's Strategic Policy Committee. She has post-graduate qualifications in accounting, finance, marketing and management.

Board Roles: Member of Audit and Risk Committee, Remuneration Committee, Transformation Committee and Nomination Committee

Anne Heal – Independent non-executive director

Anne Heal was appointed to the Elexon Board on 1 October 2017. She also chairs (MOSL) Market Operator Services Limited, is a Board Member of ORR, the rail and road regulator, a lay member of the General Dental Council, and an independent member of the Bank of England Enforcement Decisions Making Committee and the FCA Regulatory Decision Committee. She is also a non-executive director at the London Design and Engineering UTC.

She was previously Director of Regulatory Affairs for BT Group, leading the regulatory negotiations that led to the creation of Openreach, where she then became MD, Strategy. She has also been a Board Member of Ofqual, the qualifications regulator.

Anne chairs a charity, Volunteering Matters, is a trustee of BalletBoyz, and sits on the Governance and Nomination Committee of Diabetes UK.

Board Roles: Chair of Remuneration Committee; Member of Nomination Committee

David Rigney – Senior independent director

David is a member of the Elexon Board, is the Chair of the Audit and Risk Committee at Elexon and is Senior Independent Director. David joined the Board in May 2013. His tenure on the Board will end in 30 June 2022.

He is currently a Non-Executive Director at the, LINK Scheme Holdings Limited and LINK Scheme Limited and Spelthorne Gymnastics and, until 31 March 22, the Principality Building Society

David is a qualified accountant with wide ranging experience across Finance, IT, Customer Service and Corporate Governance.

He was previously Group Operations Director at Nationwide Building Society.

Board Roles: Senior Independent Director; Chair of Audit and Risk Committee; Member of Nomination Committee

David Titterton – Industry non-executive director

David is an industry Non-Executive Director at Elexon. He is an engineer by background and has over 34 years' experience in the energy industry. David has held many senior roles in Npower, and prior to that Scottish Power; in all parts of the energy retail business including Customer Service & Field Operations, Sales & Marketing and Trading.

David Titterton was appointed to the Elexon Board on 1 March 2019.

He brings a wealth of experience in initiating and developing business strategy, business development, acquisitions, business integration, divestment, transformation, leading people through major change and senior stakeholder engagement.

David is also a Governor/Director of The Aspire Academy, an alternative provision school and Non-Executive Director at Horizon Energy Ventures Ltd.

Board Roles: Chair of the Transformation Committee; Member of Remuneration Committee and Nomination Committee

Sara Vaughan – Industry non-executive director

Sara Vaughan was appointed to the Elexon Board on 1 March 2019 and served as interim Chief Executive Officer between November 2021 and April 2022. Sara was at E.ON until November 2020, where she was Executive Director for Strategy and Regulation and, latterly, for Political and Regulatory Affairs.

She started her career as a lawyer at Slaughter and May before moving to Powergen (as it then was) as a competition lawyer. She subsequently broadened her experience through taking on a number of additional responsibilities such as regulation, compliance, energy policy, and external affairs including CSR, legal and company secretariat, HSE and engineering governance.

Sara is a Non-Executive Director of the North Sea Transition Authority, a member of the Energy Advisory Panel at the Energy Institute, where she is a Fellow, and Advisory Group and Steering Group Co-chair in Icebreaker One's work on Open Energy. She was a Board Member of the UK Business Council for Sustainable Energy which later merged into Energy UK, where she was an alternate Board member and was a member of the CBI West Midlands Regional Council. She is also a local Parish Councillor.

Board Roles: Member of Audit and Risk Committee, Transformation Committee and Nomination Committee

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board.

Nicholas Brown

Company Secretary



8 June 2022

5. Corporate Governance Statement

Corporate governance

Exelon occupies a unique position of accountability and responsibility to the electricity industry and the Company's Board therefore recognises the importance and value of good corporate governance. Consequently, whilst Exelon is not a listed company and the UK Corporate Governance Code (2018) is not applicable to the Company, we do seek to follow best practice including those principles in the Corporate Governance Code that are relevant to the Company. A general narrative statement relating to the governance of the Group appears below.

Board Leadership and Company Purpose

Sustainability of business model

There is a description of the Board's assessment of how the Company generates and preserves value over the long-term on page 10.

The Board considers and addresses opportunities and risks to the future success of the business through:

- Developing thinking on opportunities and risk through regular strategy meetings and discussions;
- The Audit and Risk Committee regularly considering risk management, as detailed on page 32 to 33, including focussing on risks to the future success of the business; and
- The Board discussions include a substantial focus on strategy, which reflect considerations about sustainability of the business model.

Culture

Last year, Exelon undertook a review of its culture as part of the process for defining a future culture and articulating a new set of values. This future culture, and the new values, built on Exelon's existing strengths in order to facilitate the delivery of Exelon's vision, mission and corporate purpose.

Subsequently, company-wide interactive culture workshops have proved successful. These were designed to build on existing communications and initiatives, reinforce key messages and align Exelon's values to its strategy and purpose.

We also launched a values recognition scheme and a number of colleagues across the company volunteered as Culture Champions. A 'Culture Champion' is someone who believes in, helps develop, and cultivates excitement in their organisation's culture by overtly demonstrating the values, celebrating colleagues' successes and seeking out ways of bringing culture to life.

As part of its ongoing role of assessing and monitoring culture, the Board:

- Focusses on diversity and inclusion (following discussions had at Exelon's Equality and Diversity Forum, a new Equality, Diversity and Inclusion Policy was introduced and published in February 2022);
- Reviews relevant policies, including the Company's Code of Ethics and Whistleblowing Policy;
- Receives, through the Audit and Risk Committee, internal audit updates on fraud and whistleblowing;
- Monitors the nature and extent of workforce engagement with internal and external audits; and
- Strives, through Board members' own behaviours, to set the 'tone from the top' for management and the workforce in sharing and living the purpose, values and strategy.

Further mechanisms the Board uses to engage with the workforce are detailed in the 'engagement with the workforce' section below.

Investing in and rewarding the workforce

Chief People Officer, Geraldine Buckland, has been leading the development of a five-year people strategy for Elexon. The people strategy aims to retain and attract people to enable Elexon to maintain high customer service standards and deliver products to our customers. Key parts of our people strategy include supporting diversity, inclusion and the wellbeing of Elexon's workforce, more details of which can be found on page 13 (Corporate Social Responsibility report).

The Company's approach to rewarding the workforce is set out in the staff remuneration policy approved by the Board and which is based on the following principles:

- Ensuring equal treatment as regards pay and benefits;
- Endeavouring to pay above the 50th percentile for benchmarked roles in comparable sectors;
- Taking into account the costs to the workforce of living and working in London; and
- Endeavouring within reason to reflect remuneration best practice.

The Board has also appointed the Chair as its designated workforce non-executive director who, amongst other things, ensures that the 'employee voice' is considered in discussions about remuneration.

Engagement with shareholders and stakeholders

The rights and responsibilities of the Company's sole shareholder, NGEN, are constrained by the BSC. Having regard to the role of Elexon under the BSC and its position as a central body for the electricity industry, the Company undertakes a dialogue with a broad range of stakeholders. Elexon's relationship with BSC Parties, as the Company's funding parties, is particularly key. In recognition of that, and in order to ensure the accountability of the Board to BSC Parties, BSC Parties have the collective right to remove Board members and to vote on their re-election.

The dialogue between the Board and stakeholders is conducted through a number of channels including:

- The Chair of the Board also chairs the BSC Panel;
- The Chief Executive also attends the BSC Panel;
- Three of Elexon's Non-Executive Directors are appointed from industry so are able to provide a stakeholder perspective at Board meetings;
- The Chair and Chief Executive hold regular meetings with stakeholders including BEIS, Ofgem, the ESO and other Code Managers. These meetings are highlighted in advance and discussed by the Board with the outcome of these meetings then are reported to the Board;
- Attendance by Board members at occasional Panel meetings and informal Panel events;
- During the year, the Company seeks comments from stakeholders on its Business Strategy and Budget for the forthcoming year;
- The Company conducts an annual customer survey which is considered by the Board, including any issues and concerns raised by BSC Parties;
- There are regular meetings between members of the Executive team and BSC Parties which are reported, where relevant, to the Board;
- The BSC provides for an Annual BSC Meeting where BSC Parties can ask questions of the Board and the BSC Panel; and
- Every six months the Chair writes to BSC Parties describing the work of Elexon's Board and invites feedback from Parties.

Engagement with the workforce

The Board actively engages with the workforce using the following mechanisms:

- The Board has appointed the Chair as its designated workforce non-executive director. The Chair fulfils this role through formal engagement with the workforce at staff events, informal engagement with colleagues and participation in Elexon's internal social media platform. The Chair ensures that workforce interests are taken into account in relevant Board decision making;
- The Chair regularly meets new employees;
- Board members engage directly with the workforce through participation in breakfast briefings with different groups amongst the workforce;
- The Board reviews the annual staff survey results and the actions being taken to address any issues;
- The Board monitors feedback from regular CEO floor talks;
- The Board receives regular KPIs and reporting on 'People' (including staff turnover, health, safety and wellbeing); and
- The Company's Chief People Officer attends various meetings of the Board and its Committees, including when the Board considers the annual staff survey and annual pay reviews.

Engagement mechanisms

The Board regularly considers whether its engagement mechanisms remain effective and what other mechanisms could be used to understand the views of different stakeholders.

Whistleblowing

The Board has established a whistleblowing policy. The policy and procedures for handling whistleblowing are reviewed annually by the Audit and Risk Committee. The Audit and Risk Committee considers the policy and the procedures for the investigation of such matters to be proportionate and independent.

Directors' Conflicts of Interest

Directors declare interests where relevant on Board discussions. Conflicts of interests are managed by the Chair and Board determining the extent to which a conflicted Director should participate in Board discussions on the relevant matter. The company has a Code of Ethics, which includes a conflicts of interest policy. The company secretary maintains a register of interests that is updated whenever new interests are reported and circulated at least annually.

Noting of Directors' Concerns

The Chair encourages openness and debate. Furthermore, there is an opportunity after every meeting for Directors to raise any concerns in a more informal setting. Should Directors have concerns about the operation of the Board or the management of the Company that cannot be resolved, their concerns would be recorded in the minutes of that meeting. If Directors disagree with a decision of the Board, this would also be recorded in the minutes. If, on resignation, any Non-Executive Director had such concerns they would be invited to provide a written statement to the Chair, for circulation to the Board. No Directors have resigned in these circumstances.

Division of Responsibilities

The Board

The Board is comprised of a Non-Executive Chair, the Chief Executive Officer and five independent Non-Executive Directors. It therefore satisfies the requirement for at least half the Board, excluding the Chair, to be Non-Executive Directors whom the Board considers to be independent. The BSC enables the Board to appoint a second Executive Director (in addition to the CEO) if the Board considers this beneficial in terms of the balance of skills, experience and knowledge on the Board.

Independence of Non-Executive Directors

The Board considers that all of the Non-Executive Directors are independent.

Clare Duffy is a senior employee of ESB (Electricity Supply Board), Sara Vaughan was, until 26 November 2020, a director of E.ON and David Titterton was, until 30 November 2019, a director at NPower. As BSC Parties, ESB, E.ON and Npower have a material business relationship with the Company. This is relevant to the criteria identified in the UK Corporate Governance Code relating to Directors' independence but the Board nonetheless considers that Clare Duffy, Sara Vaughan and David Titterton are independent. The rationale for this is that appointing industry Non-Executive Directors from amongst BSC Parties is an important element in ensuring that Elexon has the appropriate balance of skills, experience, independence and knowledge on the Board. The Board has considered the contribution of Clare Duffy, Sara Vaughan and David Titterton to the discussions and decisions of the Board and has determined that they continue to demonstrate independence of judgement and character.

Senior Independent Director

David Rigney is the Senior Independent Director. The main responsibilities of the Senior Independent Director are to:

- provide a sounding board for the Chair and to serve as an intermediary with other Directors when necessary;
- be available to stakeholders if they have concerns where contact through the normal channels of Chair, Chief Executive Officer or the Executive team has failed to resolve or for which such contact is inappropriate;
- meet with other Non-Executive Directors without the Chair present at least annually in order to appraise the Chair's performance.

Scrutinising the Performance of Executive Directors

Elexon only has one Executive Director, the Chief Executive Officer, whom the Non-Executive Directors are responsible for appointing and removing. The Board, through its Nomination Committee, also reviews appointments to the Executive Team proposed by the Chief Executive Officer.

The Remuneration Committee (in consultation with the other Non-Executive Directors and, in relation to the Executive Team, the CEO) sets performance objectives for the CEO and Executive Team and holds management to account against these objectives. The Chief Executive Officer provides a monthly report setting out all material matters affecting the group during the previous month.

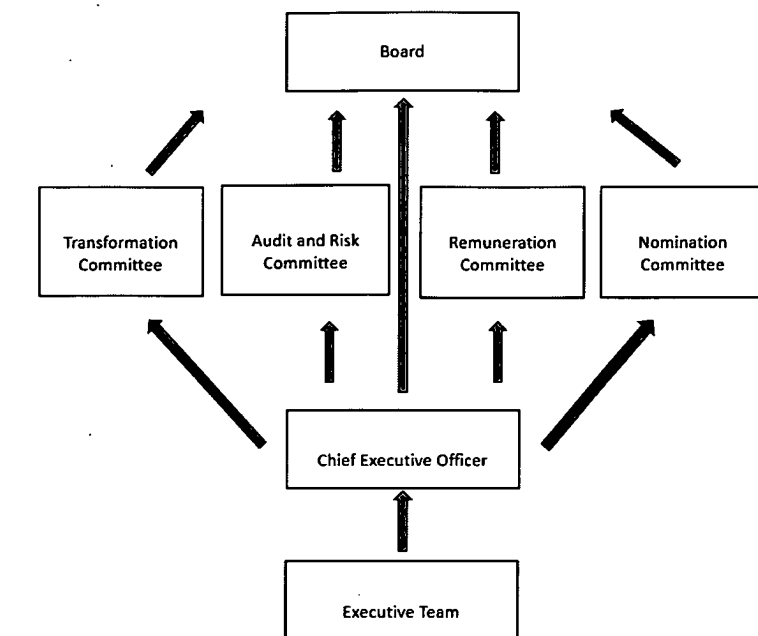
The performance of the CEO is assessed by the Remuneration Committee, of which the Company Chair is a member, comprised of Non-Executive Directors. These discussions are held without the CEO present.

Division of Responsibilities

The Board has a written division of responsibilities between the Chair and Chief Executive Officer, which is available on the Company's corporate website. The Chair is responsible for running the Board and ensuring its effectiveness in all aspects of its role, whilst the Chief Executive Officer has executive responsibility for running the Company. The Non-Executive Directors provide constructive challenge and help develop proposals on strategy. They are responsible for scrutinising the performance of management, determining appropriate levels of remuneration for the Executive team and satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

Governance Framework

The Governance framework at Elexon is set out in the diagram below.



The Board has a formal schedule of reserved matters, which is available on Elexon's corporate website. The role of the Board at Elexon is to:

- provide effective and entrepreneurial leadership of the Company, promoting its long-term sustainable success;
- satisfy itself that Elexon's culture is aligned to its purpose, values and strategy, including by acting with integrity, leading by example and promoting the desired culture;
- ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them;
- ensure that the Company has a framework of prudent and effective controls, which enable risk to be assessed and managed;
- in order for the Company to meet its responsibilities to stakeholders, ensure effective engagement with, and encourage participation from, these parties;
- ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success;
- provide constructive challenge, strategic guidance, specialist advice; and
- scrutinise and hold to account the performance of management and individual Executive Directors against agreed performance objectives.

Each of the Board's Committees has formal terms of reference. There are descriptions of the role of the Audit and Risk Committee (page 32) and Remuneration Committee (page 33)

Attendance at Meetings

The Board, and each of its Committees, hold regular meetings scheduled throughout the year and ad hoc meetings as required. All Directors are expected to attend all Board and relevant Committee meetings. During the course of 2021/22, all meetings were held through a hybrid approach (attendance at the Elexon Offices and remotely). Details of attendance by Directors at Board and Committee meetings during 2021/22 are set out in the table below.

Name of Director	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Transformation Committee
Total number of meetings	11	4	7	5	11
Michael Gibbons	11 (11)	4*	7 (7)	5 (5)	1*
Clare Duffy	10 (11)	4 (4)	5 (7)	5 (5)	10 (11)
David Rigney	10 (11)	4 (4)	3*	4 (5)	1*
Mark Bygraves	7 (7)	2*	2*	1*	6*
Anne Heal	10 (11)	-	7 (7)	4 (5)	1*, 4 (4)
Sara Vaughan	11 (11)	2 (2), 2*	4*	3 (5) 2*	4*, 7 (7)
David Titterton	10 (11)	1(2)	7 (7)	5 (5)	11 (11)

Notes

- Numbers in brackets show the number of meetings that each Director was a member of the Board or a Committee. Board and Committee membership is on pages 22 to 23.
- Numbers with asterisks(*) show how many Committee meetings a Director attended in whole or in part where they were not a member of that Committee. Non-members are invited to attend Committee discussions where this will enhance the efficiency of decision making.
- As set out in paragraph 4 of the Nomination Committee below, the Chief Executive Officer (Mark Bygraves) left the Company part way through the year. Pending the appointment of a permanent replacement, Sara Vaughan fulfilled the role of interim Chief Executive Officer. This had consequential impacts for membership of some of the Committee as follows:
 - Sara Vaughan temporarily stood down as a Non-Executive member of the Audit and Risk Committee and the Transformation Committee;
 - Anne Heal joined the Transformation Committee as an interim member; and
 - David Titterton joined the Audit and Risk Committee as an interim member.

The attendance records above therefore show some Directors attending Committee meetings in different capacities throughout the year.

Information and support

The Chair is responsible for promoting a culture of openness, challenge and scrutiny on the Board, and ensuring constructive relations between the Executive Team and Non-Executive Directors. The Chair, supported by the Company Secretary, also ensures that the Board receives accurate, timely and clear information.

Every Board meeting is followed by an informal wrap-up session which provides an opportunity for the Directors to discuss, amongst other things, the openness of debate and the quality of information flows with a view to ensuring that standards are maintained or enhanced.

The formal agenda for each Board and Committee meeting is circulated, together with papers relating to each of the matters on the agenda, one week in advance. A record of actions is created following each meeting and discussed at the following meeting. Formal minutes of all Board and Committee meetings are circulated to all Directors before the next Board or Committee meeting and are considered for approval at that Board meeting.

All of the Company's Directors are entitled to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary.

Composition, Succession and Evaluation Principles

Board Composition

The Directors collectively bring a combination of skills, experience and knowledge to the Company. The Board regularly reviews its skills matrix to ensure that there remains an appropriate balance on the Board. The Board last reviewed its skills matrix in advance of the new Non-Executive Director recruitment process, which commenced in September 2021.

The next refreshing of Board membership will take place in July 2022 when David Rigney (Senior Independent Director and Chair of Audit Committee) steps down. In addition, Michael Gibbons will step down as Chair of the Board (and the BSC Panel) by December 2022 at the latest. The Board has therefore developed a detailed succession plan to facilitate this change in Board composition.

Annual re-election

The provisions of the BSC require only those Directors who have been appointed, or reappointed, during the previous year to be subject to re-election at the next Annual BSC Meeting. However, the Board has resolved all Directors will seek re-election on an annual basis.

Chair

The current Chair, Michael Gibbons, was appointed to his role on 1 October 2013. His appointment was extended for a further three-year term on 1 October 2019 at the end of which he will have served for nine years. The Chair's tenure has recently been extended by up to three months to 31 December 2022. Although this would take him beyond the nine year tenure recommended in the UK Corporate Governance Code, the extension to December 2022 a) enabled the Chair to oversee the appointment of, and transition to, the new CEO and b) provided clear organisational continuity during this period. The UK Corporate Governance Code recognises that a limited extension to facilitate succession planning, as in this scenario, is acceptable. Planning has been undertaken to facilitate an effective succession process for the Chair, which is now underway.

Evaluation and effectiveness

The last externally facilitated evaluation was completed in October 2021 by Campbell Tickell ('CT'). All of the Board and the then Executive Team participated with the review which was comprised of a varied methodology including interviews and meeting observations.

CT's findings were as follows:

- a) Elexon was diligent and conscientious in its pursuit of good governance, with quality governance documents and a strong Company Secretary. There was evidence of action taken as a result of a previous Board effectiveness review;
- b) Relationships amongst NEDs were respectful, they were able to offer challenge and there was no evidence that the BSC requirements in relation to the Board's composition affected the Board's efficacy. CT acknowledged that Elexon had some critical elements of Board succession to manage over the following 12 months as the Chair, Chair of the Audit and Risk Committee and the Senior Independent Director were due to step down. However, succession plans for these roles were in place;
- c) Feedback from CT suggested that the Company look again at how Elexon complied with the Corporate Governance Code provisions relating to workforce engagement and whether there were other routes for achieving compliance;
- d) Elexon's approach to risk management was maturing and all of the right pillars had been put in place.

CT's recommendations were grouped into a number of key themes: Boardroom dynamics, relationships and decision-making processes around strategy. The Board and Executive Team have subsequently held a number of discussions which have focussed on these areas. This has resulted in a number of agreed steps including:

- a) Developing bilateral relationships between NEDs and members of the Executive Team;
- b) An agreed governance culture which the Board and Committee Chairs were to pursue;
- c) The importance of the induction process for the new CEO and new NEDs;
- d) Introducing steps to facilitate inclusivity in Board meetings; and

e) Introducing a decision making process based around the 'three modes of governance' model.

In terms of processes and documents, a new set of financial delegation limits has been approved by the Board. The Committee Terms of Reference and the Director's Handbook have also been revised. A plan is in place for the continuing review of processes and template documentation.

The 2021/22 effectiveness evaluation of individual Directors was also completed in November/December 2021. This evaluation was based on questionnaires prepared by the Company Secretary, which provided a 360 assessment on each Director and was followed up by a meeting with the Chair. For the Chair, the Senior Independent Director was responsible for providing feedback.

In addition, the Board holds an informal wrap-up session after each meeting, which provides an opportunity for the Board to reflect on its effectiveness on a meeting-by-meeting basis.

Development

The Chair, along with the Company Secretary, is responsible for the induction of new directors. As part of their induction, new directors receive an induction programme that is tailored to their individual needs and includes:

- meetings with the Chief Executive and the Executive team on Elexon's business, our strategy and stakeholders and the challenges facing the business;
- meetings with the Company Secretary on Elexon's corporate governance and the Chief People Officer on Elexon's people;
- a comprehensive directors' information pack; and
- an introduction to the BSC Panel (including attending a Panel meeting) and the Balancing and Settlement Code.

To strengthen the Directors' knowledge and understanding of the Company, Board members attend briefing sessions with different teams within the Company. Board meetings also regularly include briefings on specific topics of relevance to the Company's activities. During the course of this year, topics covered have included cyber security training and presentations on the impact of Market-wide Half Hourly Settlement on Settlement, and the transition to Distribution System Operators.

Audit, Risk and Internal Controls

Audit and Risk Committee

The Audit and Risk Committee is comprised of three independent Non-Executive Directors and is chaired by David Rigney who has recent and relevant financial experience. All members of the committee are competent in the sector in which the Company operates. The incoming chair of this Committee, Tim Fitzpatrick, also has recent and relevant financial experience.

All members of the Committee are competent in the sector in which the company operates. The Company Chair is not a member of the Committee, although he is invited to, and does attend, Committee meetings.

More information on the role of the Audit and Risk Committee and its activities during the year can be found in the Committee's report on page 34.

Going Concern and Viability Statement

Elexon's Going Concern statement can be found on page 21 in the Directors' Report. The Viability Statement can be found on page 17 in the Strategic Report.

Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Further details of the principal risks facing the Company are set out on page 15 to 17.

The Board, supported by the Audit and Risk Committee, is responsible for:

- determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives;
- the Company's system of risk management and internal control; and
- reviewing the effectiveness of those systems.

Recognising that risk is an inevitable part of being in business, and that it is not possible to entirely eliminate risk, the Group's risk management and internal control system is designed to identify, monitor and mitigate risks rather than eliminate them.

The Board sets and approves risk appetite on an annual basis at a risk category level to provide guidance to management on response to risks. The corporate risk register is reviewed by the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee also undertakes periodic deep dives into the management of specific risks and at least twice per year reviews all risks on the corporate risk register.

Risks are reviewed monthly by the responsible individuals assigned to the risk. The monthly review considers whether the risk is reducing or increasing as a result of inherent risk factors or the mitigation applied. Any new risks are also considered and added as necessary to the corporate risk register and any risks that are no longer relevant are closed. Significant changes to existing risks and any new or emerging risks are discussed monthly by the Executive leadership team. All risks on the corporate risk register have an Executive team member assigned who is accountable for monitoring the management of that risk over time.

In addition, the Company's project management approach involves project teams identifying, analysing, evaluating and addressing risks associated with each project. Each project maintains its own risk register with significant project risks escalated to the corporate risk register. In addition, the Company maintains a project portfolio that ensures that risks and issues on one project which impact on other projects are identified and managed. Transformation programme risks are also reported to the Transformation Committee quarterly.

Elexon has an internal audit function that provides the Audit and Risk Committee with independent, objective assurance regarding internal controls and risk management processes as part of the Company's risk management and assurance regime. The Audit and Risk Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings with the internal audit manager. All members of the Committee are provided with the reports prepared by the internal audit manager as part of the internal audit work plan.

In 2021 Elexon engaged with an external advisor to support our regular risk management processes, bring an external perspective and enhance our risk management capabilities. Improvements implemented during the year include a more comprehensive approach to Board risk appetite, risk benchmarking, refinements to our risk management methodology, tools and reporting, regular risk reviews focussed on our top risks and deep dives into specific risk areas.

Remuneration

Remuneration Committee

The Board has established a Remuneration Committee which is responsible for recommending to the Board the remuneration policy and setting the performance objectives and remuneration for the Executive team in accordance with the remuneration policy, and the remuneration for the Chair. The Committee is also responsible for recommending the workforce remuneration policy to the Board. The Committee therefore takes workforce remuneration and policies into account when setting the policy for Executive remuneration.

The Report of the Remuneration Committee on pages 35 to 36 outlines the activities of the Committee during the year and sets out excerpts of the Directors' remuneration policy.

Remuneration of Non-Executive Directors

The remuneration of the Non-Executive Directors is determined by the Chief Executive Officer and the Company Chair. The level of remuneration reflects the time commitments and responsibilities of the role as well as taking into account the need to attract and retain individuals with the necessary skills and experience. Directors' fees are benchmarked periodically taking into account the fees paid by comparable organisations.

An increase of £4,000 was made to Non-Executive Director fees from 1 January 2022 to reflect benchmarking (undertaken by the Committee's independent remuneration advisers, MCR) and that no change had been made for the previous six years.

Committee Reports

Report of Audit and Risk Committee

The Audit and Risk Committee is chaired by David Rigney who has recent, relevant and significant financial experience. The other members of the Audit and Risk Committee are Clare Duffy, and Sara Vaughan who have relevant experience in the electricity industry.

Purpose

The Terms of Reference for the Audit and Risk Committee are available on Elexon's corporate website. Its main responsibilities include monitoring the integrity of the financial statements of the Company, reviewing and monitoring the external auditor's independence and objectivity, in particular, the provision of non-audit services that they provide, and determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives, establishing the Company's system of risk management and internal control and reviewing the effectiveness of those systems.

In discharging these responsibilities, the Audit and Risk Committee considers reports from the external auditor, internal auditor and from management, and monitors the implementation of any necessary actions including an independent review of nominated areas of internal control.

Report

The key items considered by the Committee during the year were:

- the 2021 annual report;
- the 2021 audit report from BDO LLP;
- the 2022 audit work plan and accounting policies;
- bi-annual risk deep dives, including a focus on the robustness of Elexon's systems and processes to deal with challenging market conditions for electricity supply businesses and the resultant impact on Trading Charges;
- an annual review of the effectiveness of the Company's external auditors;
- the results of reviews carried out by the Company's internal auditor;
- the principal risks and uncertainties faced by the Company, which are reviewed on a quarterly basis;
- a review of the Company's risk management system;
- quarterly reviews of the Company's information security arrangements;
- a review of the Company's gifts and hospitality register; and
- a review of the Company's whistleblowing arrangements.

Risk management has been a particular focus of the Committee in 2021/22, with further details of set out on page 32.

Significant issues

The Committee did not consider that there were any significant issues in relation to the financial statements that needed to be addressed.

Effectiveness of the External Audit Process

The Audit and Risk Committee undertakes an annual assessment of the independence and effectiveness of the annual audit process. This involves the completion of a comprehensive questionnaire by the Financial Director in consultation with the Audit and Risk Committee.

The external auditors, BDO LLP, were appointed in October 2017 following a competitive tender.

Non-Audit Services

Note 11.4 to the financial statements includes a description of non-audit services performed by Elexon's external auditor during the year. The objectivity and independence of the auditor are safeguarded by limiting the value of non-audit services performed by the external auditor, the periodic rotation of the lead audit partner, independent reporting lines from the auditors to the Committee and the opportunity to meet with the Committee privately.

Report of Remuneration Committee

The Remuneration Committee is chaired by Anne Heal. Michael Gibbons, Clare Duffy and David Titterton are all members of this Committee.

Purpose

The Terms of Reference for the Remuneration Committee are available on Elexon's corporate website. Its main responsibilities include:

- making recommendations to the Board on the Executive Team Remuneration Policy and the Staff Remuneration Policy;
- Determining objectives for the performance related element of Executive remuneration and determining the extent to which such objectives have been achieved; and
- Determining Executive remuneration. In determining Executive remuneration the Committee adheres to a formal and transparent procedure.

Report

The key items considered by the Committee during the year were:

- the completion, and implementation of a Remuneration Strategy and Policy, supported by the Company's Remuneration Consultants, MCR Consulting;
- approving annual and long term incentive payments that have arisen during the year;
- establishing a new framework for assessing annual incentive payments;
- setting objectives for 2021/22;
- setting strategic incentive plan objectives for 2021/24;
- reviewing diversity related remuneration data; and
- reviewing all staff remuneration.

Note 11.3 to the financial statements sets out the Directors' remuneration for the year, including payments made to the outgoing Chief Executive Officer, which were approved by the Chair of the Remuneration Committee.

Remuneration Consultants

The Committee used MCR Consulting to assist with its development of a Remuneration Policy referred to above.

Strategic Incentive Plan

Elexon is not-for-profit, it has only a nominal share capital and its shares are not traded. It is therefore not possible for the Company to have a remuneration scheme that promotes long term shareholding in the Company

by the Executive Team, as required by the Corporate Governance Code. However, the Remuneration Committee has developed a strategic incentive plan in order to better align the interests of the Executives with the long term performance of the company in the interests of stakeholders.

Process

In determining Executive remuneration the Committee adheres to a formal and robust procedure. The Committee is comprised entirely of independent Non-executive Directors who determine Executive remuneration in accordance with a policy that has been set by the Board. Remuneration is set within the scope of the Company's total annual budget. Prior to approving the annual budget, the Board seeks comments from the Panel and BSC Parties.

Remuneration Policy

During the course of the year, the Committee reviewed the Company's Remuneration Policy with a view to establishing a set of arrangements that were aligned to best practice. The aim was to establish a total reward package that would support the Company's strategy and ensure that it remained competitive in its ability to attract and retain the right talent in a challenging market and geographical location. In doing so, Elexon's remuneration strategy and policy continue to be informed by the external market, performance, internal equity, and affordability. The underlying reward arrangements reflect the not-for-profit status and financial position of Elexon and therefore balance market practice, organisational needs, the needs of a talented and diverse workforce, and stakeholder interests and expectations.

The key principles of the Remuneration Policy include:

- Total reward packages are aligned to job level and are commensurate with the role performed.
- On base pay, Elexon intends to pay within the mid-market range for the job, subject to individual factors and affordability.
- Incentives are aligned to market and job level and provide scope to differentiate reward based on Elexon and individual performance.
- The provision of benefits, including retirement benefits, is based on a standard, consistent, non-hierarchical approach for all employees.
- Elexon potential total reward at target and maximum is reviewed against the market median total reward considering the appropriateness of overall reward levels, the balance between fixed and variable reward, and the degree of performance leverage.

Report of Nomination Committee

The Nomination Committee is chaired by Michael Gibbons. Its other members are Clare Duffy, David Rigney, Anne Heal, Sara Vaughan and David Titterton.

When making appointments to the Board, a smaller sub-group comprised of the Chair and two Non-Executive Directors undertake shortlisting and interviewing.

Although the Committee is normally chaired by the Company Chair, it will be chaired by the Senior Independent Director when the appointment relates to the role of the Chair. In any such appointment, the Senior Independent Director would also liaise with the deputy Chair of the BSC Panel to agree whether to appoint the same person to chair the Board and the BSC Panel and to co-ordinate the appointment process.

Purpose

The Terms of Reference for the Nominations Committee are available on Elexon's corporate website. Its main responsibilities include:

- reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board;
- succession planning; and
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise (using open advertising and/or an external search consultancy).

Report

The key items considered by the Committee during the year were:

- conducting the process for the appointment of a new Chief Executive Officer;
- in anticipation of the end of David Rigney's term of office, a review of the composition of the Board in the light of the Company's strategy so as to identify what skills, knowledge and experience should be targeted as part of the appointment process; and
- the appointment of Tim Fitzpatrick as a non-industry Non-Executive Director, and Chair of the Audit and Risk Committee, which is to take effect on 1 July 2022.

The external search firm, Saxton Bampfylde, was used for both appointment processes. Saxton Bampfylde has no other connection with the Company. For both roles, a number of candidates were considered and interviewed by a sub-group of the Nominations Committee, working with the Chief People Officer.

Evaluations

The Board is responsible for the annual evaluation process. More details of this can be found on page 31.

Diversity

As regards the gender balance of the Board and senior management, the Board is comprised of four male and three female Directors. The membership of the Executive Team has changed during the year so the gender balance has been either two males and four females (until November 2021 and then from April 2022) or one male and five females (November 2021 to April 2022).

Report of Transformation Committee

The Transformation Committee is chaired by David Titterton. The other members of the Transformation Committee are Clare Duffy and Sara Vaughan.

Purpose

The purpose of the Committee is to provide oversight of the Company's technology investments, to report progress to the Board, to approve investments, contracts and changes that fall within the scope of parameters set by the Board, and to make recommendations to the Board in relation to matters that are reserved to the Board.

Report

The Committee's work has included:

- Monitoring of the delivery of the Kinnect Programme including as regards cost, time, quality and outcomes;
- Key decisions in respect of the Kinnect Programme, including investment proposals for Elexon's Insights solution;
- Approval of investments in key supplier contracts and approval of a sourcing strategy to support the delivery and operation of Elexon's digital platform;
- Approval of Helix (MHHS at Elexon) contracts (separate from the ring-fenced MHHS Programme Manager role);
- Reviewing the risk profile of the Programme;
- Monitoring the resourcing needs of the Programme; and
- Internal and external assurance of the Programme.

6. INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ELEXON LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Elexon Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2022 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Group and the Parent Company, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and corporation tax. The Group and Parent Company are also subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries.

Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Identifying and testing journals, in particular journal entries posted with unusual account combinations, postings by unusual users or with unusual descriptions.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Laura Pingree (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

London

8 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

7. Consolidated profit and loss account

	Notes	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
TURNOVER			
Cost of sales	11.2	73,959 <u>(73,957)</u>	55,776 <u>(55,783)</u>
OPERATING RESULT	11.4	2	(7)
Interest and similar income	11.5	<u>(2)</u>	<u>7</u>
RESULT FROM ORDINARY ACTIVITIES BEFORE TAXATION		-	-
Tax on result from ordinary activities	11.6	<u>-</u>	<u>-</u>
RESULT FOR THE FINANCIAL YEAR		<u>-</u>	<u>-</u>
Retained result brought forward		-	-
Retained result carried forward		<u>-</u>	<u>-</u>

There are no movements in reserves, shareholder's funds, or any other recognised gains or losses and consequently no Statement of changes in equity and Statement of comprehensive income and retained earnings have been presented.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company, Elexon Limited, is not presented as part of these financial statements. The parent Company's result for the financial year was £nil (2021: £nil).

The notes on pages 45 to 57 form part of these financial statements.

8. Consolidated balance sheet

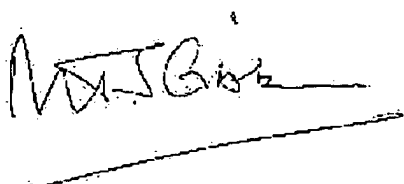
		Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
	Notes		
FIXED ASSETS			
Tangible fixed assets	11.7	158	313
Intangible fixed assets	11.8	6	40
		<u>164</u>	<u>353</u>
CURRENT ASSETS			
Debtors	11.10	325,753	159,882
Cash at bank and in hand	11.11	541,741	134,314
		<u>867,494</u>	<u>294,196</u>
CREDITORS: amounts falling due within one year	11.12	<u>(867,658)</u>	<u>(294,549)</u>
NET CURRENT LIABILITIES		<u>(164)</u>	<u>(353)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		-	-
NET ASSETS		<u>-</u>	<u>-</u>
CAPITAL AND RESERVES			
Called up share capital	11.13	-	-
SHAREHOLDER'S FUNDS		<u>-</u>	<u>-</u>

The notes on pages 45 to 57 form part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 8 June 2022.

Signed on behalf of the Board of Directors

Company Registration Number 3782949



Michael Gibbons

Director

9. Company balance sheet

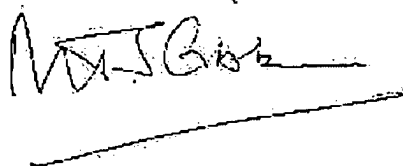
		Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
	Notes		
FIXED ASSETS			
Tangible fixed assets	11.7	158	313
Intangible fixed assets	11.8	6	40
Investment	11.9	-	-
		164	353
CURRENT ASSETS			
Debtors	11.10	3,048	3,001
Cash at bank and in hand	11.11	12,077	5,498
		15,125	8,499
CREDITORS: amounts falling due within one year	11.12	(15,289)	(8,852)
NET CURRENT LIABILITIES		(164)	(353)
TOTAL ASSETS LESS CURRENT LIABILITIES		-	-
CREDITORS: amounts falling due after more than one year		-	-
NET ASSETS		-	-
CAPITAL AND RESERVES			
Called up share capital	11.13	-	-
SHAREHOLDER'S FUNDS		-	-

The notes on pages 45 to 57 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 8 June 2022.

Signed on behalf of the Board of Directors

Company Registration Number 3782949



Michael Gibbons

Director

10. Consolidated cash flow statement

	Notes	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Operating activities			
Net cash inflow from operating activities	11.19	407,482	44,402
Returns on investments and servicing of finance			
Interest received		(2)	7
Net cash (outflow)/ inflow from returns on investments and servicing of finance		(2)	7
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(53)	(36)
Payments to acquire intangible fixed assets		-	-
Receipts from sales of tangible fixed assets		-	-
Net cash outflow from capital expenditure and financial investment		(53)	(36)
Increase in cash and cash equivalents	11.20	407,427	44,373

The notes on pages 45 to 57 form part of these financial statements.

11. Notes to the financial statements

11.1 Accounting Policies

The financial statements are prepared in accordance with United Kingdom law and Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. They have all been applied consistently throughout the year, and to the preceding year.

The particular accounting policies adopted are described below.

Basis of accounting

Elexon Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 10 to 20.

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The financial statements cover the reporting period 1 April 2021 to 31 March 2022.

The functional currency of Elexon Limited is in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Elexon Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in these separate Company financial statements in relation to presentation of a profit and loss and cash flow statement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

Basis of preparation

Arrangements are in place to manage financial risk, as stated on page 15 to 17 of the Strategic Report. As a result the Board considers that there is a reasonable expectation that the Company will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements. Please refer to the Directors' Report of Going Concern on page 21, Viability Statement on page 17 and the Strategic Report on page 10 for further information.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost, together with any incidental cost of acquisition.

Depreciation is calculated on a straight-line basis over the useful life of the tangible fixed assets. The estimated useful life used for the purpose of these financial statements is:

Fixtures and fittings:	4 years
Office and IT equipment:	3 years
Operational assets – metering equipment:	10 years

Intangible fixed assets

Previous software developments costs have been recognised as intangible fixed assets and are stated at original cost, together with any incidental cost of acquisition. Amortisation is calculated on a straight-line basis over the useful life of the intangible assets. The estimated useful life used for the purpose of these accounts is three years which is the development cost of the asset.

Recognition of revenue

The financial statements have been prepared on the basis of revenue and cost incurred in the year, which are considered to reflect the services provided in the year relating to BSC Parties under the terms of the BSC. Income is therefore recognised over the periods necessary to match it with the related costs which it is intended to compensate on a systematic basis.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Deferred taxation

Deferred tax is recognised in respect of all material timing differences that have originated or reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term. Rent free periods are spread over the lease term on a straight-line basis.

Pension and other post-retirement benefits

As described in note 11.17, the Group contributes to the NGET section of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. The Group is unable to identify separately its share of NGET's section of the Scheme's underlying assets and liabilities and, accordingly, contributions are accounted for as if it were a defined contribution scheme.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

Related party transactions

In line with Financial Reporting Standard 102 section 33 (Related Party Disclosures), the Company is not required to disclose transactions with wholly-owned subsidiaries.

Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in profit or loss in other operating expenses.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

Determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance unit.

11.2 Group Turnover

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
BSC Section D charges	67,951	49,943
EMR operational levy funded income	6,001	5,833
Other Income	7	-
	73,959	55,776

Turnover in the year primarily represents amounts due from BSC Parties under the terms of the BSC. There is a reconciliation which charges/credits the difference between amounts invoiced to each BSC Party relating to the financial year and the amount due from each BSC Party under the terms of the BSC. Any difference is deferred or accrued as appropriate.

All turnover arises from activities in the UK.

11.3 Information regarding Directors and employees

The remuneration of Group Directors for the year ended 31 March 2022 is set out below:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Directors' remuneration		
Emoluments (including benefits in kind)	889	694
Remuneration of the highest paid director:		
Emoluments (including benefits in kind)	432	376

The Directors received benefits of £5,000 from Elexon in 2022 (2021: £4,000). None of the Directors hold any shares or share options in the Company. In 2021/22, the Chief Executive Officer's three year long term incentive plan matured, which resulted in additional bonus payment in the current year, they also received payments for cash in lieu of pension in the current year £13,789.

Further, the highest paid director's employment ended during the year which resulted in a payment being made amounting to £194,770 (2021: Nil) which recognised the Company's legal obligations, in particular payments in lieu of notice.

Information regarding employees is shown below.

	Year ended 31 March 2022	Year ended 31 March 2021
Average number of persons employed	232	201
Staff costs during the year (including Directors)	£'000	£'000
Wages and salaries	14,545	11,954
Social security costs	1,678	1,391
Pension costs (See note 11.17)	1,997	1,857
	18,220	15,202

11.4 Operating result

		Year ended 31 March 2022	Year ended 31 March 2021
		£'000	£'000
Group Operating result is stated after charging	Notes		
Fixed Assets Depreciation	11.7	193	275
Amortisation of Intangible	11.8	34	39
Operating lease rentals			
– land and buildings		1,924	1,924
– plant and machinery		15	23
Fees payable to the Company's auditor for the audit of the Company's accounts		79	75
Total non-audit fees (tax, assurance and accounting advice)		6	6

Audit fees

Group audit fees payable to BDO LLP were £78,500 (2021: £74,700) of which £67,000 (2021: £63,200) relates to the Company.

11.5 Interest receivable and similar income

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Bank interest	2	(7)

11.6 Tax on result from ordinary activities

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
United Kingdom corporation tax at 19% based on the result for the year	-	-

11.7 Tangible fixed assets

Group and Company

	Operational assets/Meter Equipment	Office Equipment and Fixtures and fittings	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2021	496	1,593	1,251	3,340
Additions	-	-	53	53
Disposals	-	-	(42)	(42)
At 31 March 2022	496	1,593	1,262	3,351
Accumulated depreciation				
At 1 April 2021	496	1,344	1,187	3,027
Charge for the year	-	140	54	194
Disposals	-	-	(28)	(28)
At 31 March 2022	496	1,484	1,213	3,193
Net book value				
At 31 March 2022	-	109	49	158
At 31 March 2021	-	249	64	313

11.8 Intangible fixed assets

Group and Company

Intangible assets relate to our finance reporting software called Board which went live in April 2019, which allows the organisation access to more timely information. The Board solution, which was purchased in 2018/19, has a carrying amount as at 31 March 2022 of £6k.

These assets are capitalised because they will bring future economic benefit and ensure the stability of the central systems and will mitigate the risks of failure and overall deliver better value for money to BSC parties.

Intangible assets	
	£'000
Cost	
At 1 April 2021	6,212
Additions	-
Disposals	-
At 31 March 2022	6,212
Accumulated amortisation	
At 1 April 2021	6,172
Charge for the year	34
Disposals	-
At 31 March 2022	6,206
Net book value	
At 31 March 2022	6
At 31 March 2021	40

11.9 Investments

Company investments at cost were £179 at 31 March 2022 (2021: £179).

11.10 Debtors

	Group		Company	
	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Trade debtors	118	146	118	146
Trading Party balances	322,737	157,081	-	-
Taxation and social security	733	379	658	379
Prepayments and accrued income	2,159	2,268	2,266	2,468
Other debtors	6	8	6	8
	325,753	159,882	3,048	3,001

£322,737,044 (2021: £157,081,246) of the Trading Party balances represents amounts due from trading parties under Section N of the BSC for the 31 days of trading from 1 March 2022 to 31 March 2022. An amount of £322,652,800 (2021: £157,038,173) is included in Creditors: amounts falling due within one year (see note 11.12). The rest of the Trading Party balances represents advance payments by trading parties as well as defaulted amounts due to be recharged to and collected from non-defaulting trading parties.

11.11 Cash at bank and in hand

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Cash at Bank	12,370	6,116
Security Deposits	529,361	128,186
Pre-payment of trading charges	10	12
Borrowing	-	-
	541,741	134,314

Group cash of £541,740,192 (2021: £134,313,611) includes security deposits lodged by Trading Parties with Elexon Clear under Section M of the BSC. £9,750 (2021: £11,557) of cash at bank represents advance payments by three trading parties for their trading balances, £56k was drawn from borrowing account to cover the defaulted position (see note 11.12). Amounts lodged as security deposits are the absolute property of Elexon Clear but can only be used as credit cover for trading balances as set out in the BSC. The BSC also sets out the limited instances whereby security deposits are repaid to Trading Parties. Interest accrued on cash deposits is paid to the lodging parties in accordance with the BSC.

Company cash of £12,076,971 (2021: £5,497,505) comprises of cash at bank only.

11.12 Creditors: Amounts falling due within one year

	Group		Company	
	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000	£'000	£'000
Security deposits lodged by Trading Parties	529,399	128,240	-	-
Trade creditors	3,854	2,448	3,795	2,397
Trading Party balances	322,653	157,038	-	-
Taxation and social security	456	396	456	378
Other creditors	178	113	178	113
Accruals and deferred income	11,062	6,314	10,860	5,964
Overdraft	56	-	-	-
	867,658	294,549	15,289	8,852

11.13 Called up share capital

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Authorised:		
100 Ordinary shares of £1 each	100	100
Called up, allotted and fully paid:		
One Ordinary share of £1	1	1

11.14 Financial commitments

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000	£'000	£'000
Leases which expire:				
- within one year	1,924	1,924	1,924	1,924
- between one and five years	7,695	7,695	7,695	7,695
- after five years	654	2,577	654	2,577

Operating lease commitments relate to land and buildings.

11.15 Ultimate Parent Company

Elxon is wholly-owned by NGESO. The ultimate parent entity of NGESO is National Grid plc.

The Directors are of the opinion that, under Financial Reporting Standard 102 (Accounting for Subsidiary Undertakings), the financial statements of Elxon do not require consolidation within the financial statements of National Grid plc group. Under Section C of the BSC, NGESO is prohibited from consolidating the financial results of Elxon or its subsidiaries with its own or with any of its affiliated entities.

11.16 Related Party transactions

Transactions between related parties are on normal commercial terms and conditions, which are no more favourable than those that are available to other parties.

During the year, the Company entered into the following related party transactions:

NG ESO parent company loaned £10m of short-term financial support through an arm's length agreement on commercial terms to address the short-term cash flow issue that had arisen, to the Company on 6 October 2021. This was paid back in full by 28 October 2021. There are no amounts outstanding at year end. The unprecedented situation in the energy retail market this year with multiple suppliers exiting the market and the unprecedented spikes in electricity prices from an average of £173/MWh to a peak of £960/MWh, saw increases in Trading Charges from typically £3m-5m daily to £75m in one day. This level of Trading Charges has rarely been seen under the BSC, resulted in an imbalance of Trading Charges settled by Elxon, amounting to a £6.5m shortfall cumulatively rising to just under £10m during the period, due to the failure of those Suppliers to pay their share Trading Charges.

Sara Vaughan is one of the Non-executive Directors of the Company. During the period, the Company has purchased advisory services in the ordinary course of its business from Sara Vaughan in the amounts of £5k (2021: nil).

All transactions were at arm's length.

11.17 Pension scheme

The total pension cost for the year ended 31 March 2022 from all schemes comprised regular contributions of £1,996,809 (2021: £1,857,456). At 31 March 2022, there were accrued pension liabilities of £49,867 (2021: £49,867).

Defined benefit scheme

As of 31 March 2022, 5% (2021: 6%) of the Group's employees were members of NGEG's section of the Electricity Supply Pension Scheme ('ESPS'), a defined benefit scheme. The ratio has reduced and is diluted as the number of staff employed has increased and this pension scheme is closed to new joiners. The assets of the Scheme are held in a separate trustee administered fund. The Scheme is divided into sections, one of which relates to NGEG. NGEG's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006. The Group's pension contributions are determined on a section-wide basis as advised by the actuary and are fully expensed in the Profit and Loss Account.

For the scheme year 2021/22, Elexon incurred employer pension contribution costs of £940,052 (2021: £951,623) for its defined benefit scheme, of which £598,404 (2021: £601,644) was towards the deficit repair.

The ESPS, in accordance with the Pensions Act 2004, is subject to a full actuarial valuation every three years. An annual review is also performed every year. The last valuation (completed in September 2020) set out the position as at 31 March 2020. The results of the new actuarial valuation is expected in March 2023. The actuary used is Aon Hewitt Limited. The results of this actuarial valuation have been used as the basis for assessing pension costs. In summary, the results of the last full actuarial review available showed that as at 31 March 2021:

- the total assets of the NG Scheme were £3,330.6m
- liabilities i.e. the cost of providing the pensions/benefits were £3,351.5m
- the deficit was therefore £20.9m, a decrease of £216.5m from the deficit of £237.4m identified in the previous 2019 valuation. The NG Scheme assets were calculated as being sufficient to meet 99.4% of its accrued liabilities (at the previous 2019 valuation assets, were sufficient to meet 93.0% of accrued liabilities)

The main reasons for the deficit are;

- Negative returns on the Group's return seeking assets
- The changes to financial assumptions principally due to a reduction in the real yields on index linked gilts which have worsened the position (although the increase in liabilities is partly offset by an increase in the value of the Liability Driven investment asset); and
- Company contributions which have improved the position.

Following the last review, employers' contribution is 42.8% (twice members' normal contributions, 2 x 8%, plus 26.8%). Elexon's share of the Deficit Repair continues to be £49,867 per month to 31 March 2022.

Defined contribution scheme

Since 1 September 2006, all new permanent employees have only been offered the option to join a new Elexon Pension Scheme. The Elexon Pension Scheme is a defined contribution Group Stakeholder Pension Plan. Elexon matches employee contributions on a two for one basis to a maximum of 12% of basic salary. All eligible staff were auto enrolled. In the scheme year of 2021/22, Elexon incurred employer's contribution costs of £979,156 (2020/21: £833,563) for its defined contribution scheme.

11.18 Additional information on subsidiary undertakings

Subsidiary undertaking	Country of registration	Activity	Portion of ordinary shares held %	Physical Address
Poolserco Limited	England and Wales	Dormant	100	4th Floor 350 Euston Road London
Poolit Limited	England and Wales	Holder of intellectual property rights and licences, non-trading	100	
Elexon Clear Limited	England and Wales	Legal counterparty to balance and imbalance transactions per the BSC	100	
BSC Co. Limited	England and Wales	Dormant	100	
EMR Settlement Limited	England and Wales	Undertakes settlement functions for Electricity Market Reform	100	

The results of all of the above entities are included within the consolidated financial statements.

Poolserco [3646729], BSC Co. Limited [3837126] and Poolit Limited [3646741] have taken advantage of the S448a exemption from preparing individual accounts as they are dormant entities, and the directors of these companies are exempt from the requirement to deliver a copy of the company's individual accounts to the register.

11.19 Reconciliation of operating result to net cash flow from operating activities

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Operating result	2	(7)
Fixed Assets Depreciation	193	275
Amortisation of Intangible	34	39
Loss on disposal of fixed assets	15	-
(Increase) in debtors	(165,871)	(46,157)
Increase in creditors	171,950	46,706
Increase in trading deposit	401,159	43,546
NET CASH FLOW from OP. ACTIVITIES	407,482	44,402

11.20 Reconciliation of net cash flow to movement in net cash

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Net cash at 1 April	134,314	89,941
Increase in cash	407,427	44,373
Net cash at 31 March	541,741	134,314

11.21 Subsequent Events

Government and Ofgem are committing to proceed with the creation of a new, independent Future System Operator (FSO) covering gas and electricity markets. They have concluded that the most effective model for realising this vision is to establish the FSO as a public corporation, with operational independence from government and that the NGESO should form the FSO. Elexon's shares are owned currently by the NGESO, and the FSO transition will therefore impact Elexon. NGESO's limited role in the overall governance of Elexon means that any changes proposed would likely not materially impact Elexon. BEIS and Ofgem are committed to ensuring the stability and continuity of Elexon's services and roles, noting their centrality to the electricity market and within Market-wide Half Hourly Settlement. The consideration of the ownership of Elexon is driven only by the creation of the FSO. However, NGESO is the sole shareholder of Elexon and, therefore, the transfer of NGESO into public ownership requires separate work to consider whether this is also the best ownership outcome for Elexon. BEIS will therefore be reviewing the ownership of Elexon and plans to publish a separate consultation on Elexon ownership in due course. This event does not have an impact on these financial statements.