

Our ref. **BS18-06-02**
Your *ref.* Dear Mr Dickinson

Governance of Electrical Standards

This is the response from ELEXON to the Ofgem Consultation Document, Governance of Electrical Standards, April 2002.

ELEXON is the Balancing and Settlement Code Company (BSCCo) defined and created by the Balancing and Settlement Code (BSC or 'the Code'). All companies licensed to supply, generate or transmit electricity in England and Wales are obliged to sign the Code, other parties may choose to do so. The Code places obligations on ELEXON. The rules and governance for trading in the Balancing Mechanism and Imbalance Settlement process are contained within the Code, and it is these two areas that ELEXON manages in conjunction with the BSC Panel. ELEXON procures, manages and operates services and systems, which enable the balancing and imbalance settlement of the wholesale electricity market and retail competition in electricity supply.

This response is, in large part, confined to views on the suggestion in the Consultation Document that ELEXON may take on the role of governing and publishing electrical standards. In this response we assume that the body responsible for governance means the body responsible for running and supporting the process of creating new and amended standards and delivering those standards to the Authority for approval.

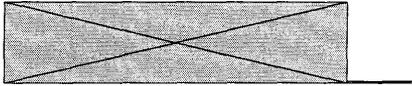
General Overview

Ofgem has set out in its consultation, in paragraph 3.8, the required outputs from revised governance arrangements for electrical standards. These are:

- Transparency of processes;
- Inclusiveness, provision of accessibility to the wider user community;
- Responsiveness to change;

- Efficiency of administration;
- Effective review and control mechanisms; and
- Robust quality control procedures.

In considering a possible role for ELEXON in the governance of electrical standards, we note that, in undertaking its role under the BSC, ELEXON in conjunction with the BSC Panel is required to deliver these outputs in respect of the administration, operation and modification of the balancing and settlement process and the BSC itself. In addition, ELEXON and the BSC Panel are required to be independent of commercial interests operating within the electricity industry, but to be aware of, and sensitive to the impact of its operations on those who are affected by the BSC. We are pleased to see that Ofgem believes that ELEXON is an "effective organisation" and has "sound governance processes".



Ofgem has suggested, in paragraph 3.48 of the consultation, that "ELEXON's role could be enlarged to include publishing and governance of the Grid and Distribution Codes, and associated electrical standards".

If thought appropriate, ELEXON could take on the role of governance of the modification and development of electrical standards, perhaps in conjunction with an appropriately constituted Panel. Such a role could involve ELEXON in running a modification process, convening expert groups and running industry consultations, activities with which it is familiar and has appropriate expertise.

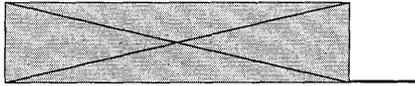
We recognise that this new role is not within ELEXON's current remit as defined by the BSC. However, ELEXON does have experience in the type of processes that Ofgem appears to be contemplating, and with contracting for technical services with third parties, which may be necessary in such a role.

ELEXON also has some expertise in standards and governance through its role in developing and maintaining Codes of Practice. However, if ELEXON were to take on responsibility for supporting the modification and development of electrical standards, we would need to ensure access to appropriate specialist expertise through industry expert groups and possibly contracting with other expert bodies.

Answers to specific Ofgem Questions

Q1: Is it appropriate to restrict the scope of this review to the governance of the Distribution Code technical standards or should it include governance of Grid Code technical standards?

In the interests of simplicity and efficiency, it would appear logical to maintain similar arrangements for both Codes. There are likely to be both similarities and differences in the technical content of both groups of standards. The choice made in answer to this question is unlikely to significantly change the role ELEXON could have in governance.



Q2: Would it be helpful to establish Technical Standard Groups under the Grid and Distribution Code Review Panels?

ELEXON could, if thought appropriate, offer independent secretarial and support services to the Technical Standards Groups, or other bodies. The governance responsibility for delivery of recommendations on technical standards to the Authority is presumed to rest with the appropriate Panel.

Q3: How should the enhanced Grid and Distribution Code Review Panels be funded?

ELEXON has no view on this point, but would note that the issue of appropriate funding would arise in most governance options.

Q4: Is it appropriate to modify the role of Distribution and Grid Code Review Panels to cover commercial, regulatory and administrative matters?

ELEXON notes that the Grid Code, in particular, has a strong relationship with the Balancing and Settlement Code. For example, the rules for the lodging of Balancing Mechanism Bids and Offers and other parameters are set out in the Grid Code. If the Grid/Distribution Code Panel(s) had an extended remit to cover commercial issues, the boundary of the three Panels (BSC, Grid Code and Distribution Code) in relation to commercial issues and with the CUSC Panel would need to be clear.

Q5: How should these Panels be funded?

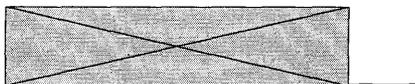
See our answer to Question 3.

Q6: Is it appropriate that drafting of electrical standards be performed by a new body with a remit to act for the benefit of principle stakeholders?

It may be appropriate, but the capital costs of setting up such a body plus operating costs (e.g. rent, rates, etc.) may make this an expensive option. The other options, which use or modify existing bodies, may deliver the required outputs at incremental and therefore lower cost.

Q7: How should such a body be funded?

See our answer to Question 3.



Q8: Should ELEXON oversee governance of the Distribution and Grid Codes and referenced electrical standards?

If thought appropriate, ELEXON could oversee governance of the modification and development of electrical standards, perhaps in conjunction with an independent Panel, as under the BSC.

Q9: Should the governance of electrical standards by an alternative UK or international standards organisation be pursued?

ELEXON has no view on this point, other than to note that, under any governance model, it needs to be ensured that the body responsible:

- Has, or can obtain, the appropriate process expertise;
- Is independent;
- Can be bound legally into the governance process, including the Authority approval process; and
- Has appropriate funding arrangements to cover the costs of this process, such that the funding arrangements themselves do not pose a barrier to participation/transparency.

Q10: Should the DTI be set up as a new standards body?

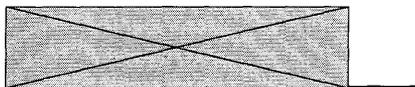
As Question 9.

Q11: How should a DTI standards body be structured and funded?

See our answers to Questions 3 and 9.

Q12: Should all draft documents be published on a publicly accessible Internet site, and should the site have a facility for readers to provide comments using the Internet?

A suitable site could be developed in consultation with users and interested parties, ELEXON has experience of operating the BSC/ELEXON website and contracts for the operation of the BMRS website. There have been very positive comments about the range of information held on the ELEXON website and ease of access to it.



413: Are there other more appropriate governance arrangements not discussed above that should be considered?

There are a number of 'hybrid' options that could be considered, where, for example, one body provides secretarial and process support, but governance responsibility for the delivery of standards/Codes remains distinct. Any governance model should be tested against the required outputs, and taking account of the set-up and ongoing costs. The criteria set out in our answer to Question 9 above are also relevant.

414: Should drafting committees for standards falling under the Panels be open public meetings? If so, how is this best achieved?

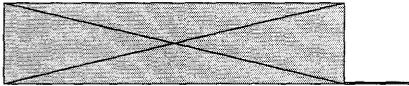
Our experience of the BSC model is that a presumption for openness appears to be successful. There has been a degree of dissatisfaction amongst interested parties where closed meetings have been prescribed by the Code. The incidence of genuinely confidential material has been limited. ELEXON would support a presumption of openness in the development and amendment of electrical standards with provision for closed working when specific, confidential matters arise,

Q15: Is it necessary for drafting committees to have fully independent chairpersons? If so, who might such people be?

Again, the BSC model gives us experience of this. Under the BSC, independent chairmanship of the BSC Panel is generally accepted as having worked well. In any event, it would be important to back this up with independent support for the chairman. Such a chairman could be appointed by the Authority in a similar manner to the Chairman of the BSC Panel. Alternatively, they could be senior staff from an independent secretariat.

Q16: How best can third parties, particularly small players take part in development of industry standards and how should this be funded?

In relation to the BSC, there is a range of methods operated by ELEXON for ensuring the inclusion of all parties and for supporting those with more limited capacity. These are usually available generally and are funded from the "normal" cost recovery method (free at the point of use). It would be possible to develop a more targeted cost recovery process for specific services as long as the administration burden was not disproportionate.



418: Overall, which option do you regard as the preferred way forward?

We would suggest that:

- the output criteria set out in paragraph 3.8 of the **Ofgem** consultation;
- the criteria set out in our answer to Question 9 above in deciding whether any existing body can fulfil the governance role; and
- cost considerations, e.g. the incremental costs of utilising an existing body, suitably amended, versus the capital costs of a new body

should all feed into the final decision.

In conclusion, ELEXON remains willing to discuss any of the options further with the Authority, including whether an enhanced role for ELEXON would be appropriate and best meet the criteria.

Yours sincerely

Brian Saunders
Chief Executive