

Electricity Systems Team

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Future System Operation

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20 September 2022

Dear Sir or Madam,

Re: The Future Ownership of Elexon

Thank you for the opportunity to respond to the government and Ofgem's consultation on the ownership structure of Elexon.

Overall we understand the need for an industry ownership, owned by a representative group of industry stakeholders, and we support BEIS and Ofgem's preferred option. We have set out below the reasons behind this and a few additional aspects to consider (including in relation to the proposed temporary fallback option).

Role of the future FSO and DCC enabling role

The Government and Ofgem response to the consultation on the Future System Operator (FSO) set out the Government's decision to create a publicly owned FSO, taking on all the current roles of National Grid Electricity System Operator (NGESO) and some key roles in the gas system.

Once fully operational, the FSO will provide the integrated "whole system" platform to enable a long-term strategic approach to energy decision-making. It will also support the development of a fully digitised, responsive, and flexible energy system that will meet future energy demands more efficiently.



DCC will continue to play an important enabling role to the FSO's aims and objectives. With an integrated gas and electricity communication and data network, we already work closely with all energy stakeholders, including the Distribution System Operator (DSO) community, to facilitate demand side management for end consumers.

Ownership structure of Elexon – our preferred approach

Elexon performs its role of administering the Balancing and Settlement Code (BSC), and procuring the systems needed to implement it, effectively. Any reforms to its structure must safeguard this and be cognisant of future reforms. Important industry programmes such as Market Wide Half-Hourly Settlements (MHHS) should not be disrupted, neither should progression in the transition to FSO be suspended whilst the matter of Elexon ownership is resolved.

When considering the future ownership structure for Elexon, we believe that any structure should support the following objectives:

- Accelerate implementation of industry policies and digitisation to support the development of the smart and secure electricity system.
- Maintain operational independence and preserve accountability to industry stakeholders.
- Minimise disruption to Elexon's BAU operations, including on the BSC, and avoid disruption to the FSO delivery timeline.

Based on the above, DCC shares BEIS and Ofgem's views and would support the preferred option of industry ownership. Ownership of Elexon could transition from National Grid to that of a group of representative industry stakeholders (for example BSC parties or a subset thereof), whilst retaining the existing board, governance, funding arrangements and not-for-profit status.

This would maintain the organisation's industry accountability, quality, and cost efficiency incentives alongside meeting the other objectives listed above.

Additional considerations – temporary fallback and Code Reform

Any more radical change at this time would risk disrupting Elexon's BAU operations and FSO timescales. We would also caution against the use of a temporary fallback option of public ownership if implementation of industry ownership takes longer than expected. This could lead to unintended consequences, such as the ability to recruit and retain existing high calibre staff.



In the longer term, it is vital that Elexon – and other central bodies – continue to support delivery of complex change to support the government's journey to Net Zero. Code reform and the intention to create a new governance framework for energy codes will have implications for Elexon and potentially Xoserve.

The code reform agenda could be the catalyst for the creation of a single integrated gas and electricity Future Market Operator to support the FSO in its aims. An important consideration in the future ownership structure for Elexon must therefore be that it not only enables Elexon to continue to perform its existing functions well, but it also does not preclude any outcomes of code reform.

Once again, thank you for the opportunity to respond to this consultation. We look forward to supporting this work in any way we can. If you have any further questions about the content of this letter, please do reach out to myself or a member of my senior team.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Stève Hervouet', written over a series of horizontal lines.

Stève Hervouet
Chief Strategy and Regulation Officer (Interim)

Cc:
Angus Flett, CEO, DCC
Jason Clark, CFO, DCC