

Ms Sonia Brown
Director, Transportation
Office of Gas and Electricity Markets
Ofgem
9 Millbank
London, SW1P 3GE

17th May 2004

Dear Sonia

Regulatory Impact Assessment – Agency and governance arrangements

Electralink welcomes the opportunity to respond to the paper “National Grid Transco – Potential sale of network distribution businesses, Agency and governance arrangements: Regulatory Impact Assessment (April 2004)”.

We believe that it would be worthwhile starting by outlining Electralink’s role in the electricity and gas markets and how it believes that this is relevant to the issues covered in the paper.

In the planning for the complete opening of the UK electricity supply market to competition in 1998, the need was recognised - both by the regulator and the industry - for the provision of a reliable and secure communications system to enable all participants to exchange information efficiently. As a result Public Electricity Suppliers (PES's) were mandated to provide such a service (subsequently as part of the changes associated with business separation and the 2000 Utility Act, this obligation was passed to distribution network operators). The vehicle for fulfilling this obligation is Electralink - which to meet the communications requirement, has specified and procured a Data Transfer Service, which has underpinned the efficient operation of the UK electricity market ever since.

In addition to the Data Transfer Service, ElectraLink offers a range of other services to electricity market participants. We provide business to business communications facilities for any electricity user to exchange data with any other company. In addition, in the gas industry we are now providing communication services to a major gas supplier

to facilitate contact with all of its meter operators; and we are currently ensuring that our service is compliant with RGMA requirements.

We believe that our position within these industries gives us a unique perspective on both current operations and how these could develop in the future. It is also important to be mindful of the potential convergence of business processes and systems between the gas and electricity industries at both the wholesale and retail level. Many of the players operate in both markets and would benefit from common processes, systems and infrastructure where this doesn't inhibit competition.

ElectraLink supports the case outlined in Ofgem's "Regulatory Impact Assessment – Agency and governance arrangements" paper document for the establishment of an Agency to provide and manage key common services on a centralised basis. Our experience since 1990 demonstrates the benefits of a secure, common and cost effective service to the retail electricity competitive market. This has facilitated high levels of service to end-use customers. Whilst it would be idle to deny that there have been difficulties with a relatively small number of customers changing their suppliers this has not resulted from failures or weaknesses in the data transfer network. Our experience indicates that the agency model that has been put forward is a workable and effective solution.

In trying to rank the various solutions you explain in your document, we have looked at which of them would provide a cost effective but robust infrastructure; and which of them is most likely to provide consistent approaches and the greatest opportunity for the greatest cost savings across the gas and electricity industries combined.

However it will be important that, should the agency solution be adopted, it is placed in a framework with suitable governance, incentive and, in due course, funding arrangements. Thus we share Ofgem's view, expressed in paragraph 4.11 that "to the extent that the Agent, as a monopoly, is solely responsible for delivering communication and settlements systems there is a risk that this could hinder innovation in, and the development of, new systems and technologies". Thus, we believe that it is vital that incentive arrangements are placed upon the agent through its governance framework which will encourage it to seek out the most cost effective and appropriate solutions for its various activities. The arrangements should also be designed to avoid any bias that the agency may have to source such solutions either internally or from its parent company. ElectraLink has experience of operating within such a framework where ownership by the distribution companies is counter balanced by control of the DTS by the DTS User Group via the auspices of the multi-party Data Transfer Service Agreement signed by all the Users of the DTS. We would be pleased to discuss this with Ofgem if required.

We have looked at the various agency options that are shown in the paper and support Ofgem's arguments for selecting options B1 and E as the two forerunners. We have come to the view that Option E gives the more logical split, with the shared settlement systems in the Agency, and Option E is therefore our preferred option. This is because it maximises the degree of convergence between the gas and electricity industries whilst limiting the costs of implementation and change as far as possible.

With the sale of a number of DNs and the introduction of metering competition in gas under the RGMA initiative there is the potential for an increasing similarity between the gas and electricity markets and the associated governance arrangements. It is ElectraLink's view that this convergence may provide an opportunity for both industries to share or develop common systems which would reduce costs as well as assist the industry in meeting the increasing desire of customers for dual fuel contracts.

An example of a system that could be shared by both the gas and electricity industries is in the field of data transfer – the service provided by Electralink. As outlined above the electricity industry currently uses the Data Transfer Service (DTS) and ElectraLink is also selling more and more data transfer services to the gas supply companies and their meter operators at the retail end of the gas market. At the wholesale level, the gas industry uses the IX network, although there is no reason why this could not be replaced by other lower cost and more advanced technological solutions. ElectraLink would be very disappointed to see anything in the setting up of the agency that would preclude ElectraLink offering cost effective data transfer services to current users of the IX Network. There is a danger that an Agency staffed by ex-Transco staff will be motivated to protect the systems and infrastructure it inherits rather than source the best and most innovative products from the market, unless this is balanced by the governance arrangements.

The Data Transfer Service for electricity is currently being replaced by a new state of the art service from EDS. This service offers a secure private IP network and has the capability of being expanded to meet the requirements of both gas and electricity which would provide substantial operational cost savings to both industries.

If you would like to discuss any of the points that we have made in this letter, please make contact with me or Danny Williams on 020 7462 8700

Yours sincerely

D Mutton
Chief Executive