



BSC Parties, elxon and other interested parties

Promoting choice and value for all gas and electricity customers

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Extending the vires of Elexon Limited

On 30 March 2011 the Department of Energy and Climate Change ('DECC') and the Authority published their joint response to the July 2010 prospectus on the Smart Metering Implementation Programme. That response confirmed the Government's intention to create a licensed Data Communications Company ('DCC') to centrally manage and communicate the large volumes of data arising from smart meters.

It was further clarified that the DCC should be granted its licence following a competitive process run by DECC. Thereafter, the company will be regulated by the Authority in a similar way to other monopoly service providers in the energy sector.

Elexon has set out its aspiration to participate in the competition to be the DCC, as set out in its Business Plan 2011-12¹. Ofgem subsequently commissioned an independent advisor to help us understand the issues that may arise from a diversification from its current role; we have today published the advisor's report. We will shortly consult on extending the vires of Elexon Limited in order to allow it to carry out activities other than those associated with the operation of the balancing and settlement arrangements.

Background

Elexon administers the Balancing and Settlement Code ('the BSC') for Great Britain. Elexon's role in operating the settlement mechanism on the industry's behalf is critical to the effective operation of the electricity market. The current governance arrangements (including corporate structure and funding) were set up with the sole aim of running the electricity BSC arrangements. The BSC itself currently precludes Elexon from undertaking any activity outside of that Code. For example, in order to allow Elexon to potentially take on the responsibility of administering the Warm Home Discount Scheme, changes to both the BSC and National Grid Electricity Transmission's ('NGET') licence were required, which were directed by the Secretary of State under specific powers provided by the Energy Act 2010.

We consider that the BSC arrangements have worked well to date, but recognise that policy aims such as the move to a low carbon economy will increasingly present challenges to market arrangements in the coming years. Elexon will have an important role in helping the industry meet those challenges.

Elexon has extensive experience of settlement and the procurement and management of contracts to fulfil its expert role. On the basis that there may be some important synergies between the data settlement processes currently run by Elexon and the anticipated role of

¹ See: <http://www.elexon.co.uk/pages/corporateandfinancialinformation.aspx>

the DCC, we consider that consumers may benefit from Elexon's participation in the competition to undertake that role.

As an initial step, we sought independent advice on how the value for consumers could be realised, while ensuring that Elexon's diversification could be achieved without placing risk upon, or gaining unfair advantage from, its role as the BSC Company ('BSCCo'). In particular, we sought an assessment of the organisational model put forward by Elexon and any suggested alternative.

Next steps

We are now in receipt of the independent report and will continue to consider its findings. We intend to issue a consultation on the issues arising from an expansion of Elexon's vires this September. However, in the interests of transparency we have decided to publish the independent report in full ahead of our consultation being launched. It is therefore appended to this letter.

We are also aware of the ongoing work of Issue Group 40² established by the BSC Panel in April 2011 to consider the implications to the BSC of a change in Elexon's role, including an assessment of the Elexon 'straw man' of its proposed organisational structure. Whilst we consider that to be an entirely separate review to that commissioned by Ofgem, it would nonetheless be helpful if that group's report could also be completed and published in time to inform our consultation. However, for the avoidance of doubt, whilst we will give full consideration to the findings of each review, we may not necessarily share the views expressed in those reports, nor limit our September consultation to an assessment of the same models and issues.

Given the above, we do not seek views on the independent report at this time, but will provide opportunity to comment as part of our consultation. We would also be happy to host a round table discussion at which questions may be put to the independent advisor, Richard Morse, directly. If you would be interested in attending such an event, or would like to submit questions which can be addressed as part of any write up of the meeting, please contact me at: industrycodes@ofgem.gov.uk.

Subject to the level of interest in such an event, we will contact respondents to arrange a suitable time and venue.

Yours sincerely

Jon Dixon
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² http://www.elexon.co.uk/ELEXON%20Documents/182_05_Standing_Issue_40.pdf