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Rachel Fletcher
Acting Senior Partner, Distribution
Ofgem
9 Millbank
London SW1P 3GE

Legal & Regulatory

Lakeside West
1st Floor
30 The Causeway
Staines
Middlesex
TW18 3BY
t: 01784 874000
f: 01784 878719

Dear Rachel

Open Letter Consultation: Potential expansion of the role of Elexon

Thank you for the opportunity to respond to your consultation on the potential expansion of the role of Elexon.

We agree that there may be some synergies between processes currently run by Elexon and the anticipated role of the DCC. However we are concerned that the proposed expansion may be to the detriment of existing BSCCo activities.

We note that you have outlined 4 conditions that must be met by Elexon before any expansion of their role could be considered namely:

1. BSC parties should not face higher costs
2. The arrangements should not place more risk on BSC parties
3. Standards of service should be maintained
4. Elexon's BSC role should not give any undue advantage in the DCC competition

We fully support these conditions and have considered these when making our assessment of which of the proposed business models would be most suitable for Elexon to adopt.

We would make the point that it is important that Elexon does not lose focus on business as usual activities during any transition and that appropriate mechanisms are put in place to ensure any new Elexon commercial activities cannot be subsidised by BSC revenues. Elexon should ensure full transparency of the BSC budget is maintained to give visibility to BSC Parties of where their money is spent and ensure they are receiving value for money.

Overall we believe the contract model would best meet the conditions outlined as opposed to the subsidiary model for the following reasons:

- It increases transparency of costs and promotes efficiency in the resourcing of services through the competitive tender process
- Protects BSC Parties from speculative commercial activities of a commercial company whose business activities can be more diverse
- Allows new investment in Elexon from companies who are not BSC Parties
- Gives the shareholders of Elexon more control over their business plan

We fully recognise the challenges Elexon faces in implementing either of the proposed models and consider that if Ofgem does not receive the necessary assurances that Elexon is capable of meeting these challenges then the "do nothing" option should still be considered.

We have set out in the attached appendix our response to the specific questions raised in your consultation.

If you have any questions on our response to not hesitate to contact me.

Yours sincerely



 **Kevin Woollard**
Regulatory Manager
Tel 07979 563580

Appendix 1 Consultation Question Responses

1. Do you consider that we have set the right conditions for a potential expansion of Elexon's role?

We fully support the conditions you have set out for a potential expansion of Elexon's role.

2. Do you consider a contract or a subsidiary model would better meet our conditions? Please provide reasons.

We consider that a contract model would better meet the conditions for the following reasons:

- It increases transparency of costs and promotes efficiency in the resourcing of services through the competitive tender process
- Protects BSC Parties from speculative commercial activities of a commercial company whose business activities can be more diverse
- Allows new investment in Elexon from companies who are not BSC Parties
- Gives the shareholders of Elexon more control over their business plan

3. Do you consider that the role of the BSC Panel should change in response to a change in the role of Elexon?

We believe that the role of the BSC Panel should change regardless of whether a change in the role of Elexon is approved. The key function of BSCCo is to administer the trading arrangements between suppliers and generators. We note that under the current arrangements BSC Panel members are obliged to act independently in carrying out the functions as panel members and decisions are made with regard to objectives set out in the transmission licence rather than through negotiation between competing commercial interests. We consider that the structure of the BSC Panel is not fit for purpose for today's market as the views of suppliers and generators are under-represented and these key stakeholders do not have the appropriate influence commensurate with their value at stake.

4. Would the current arrangements for the BSCCo Board allow it to fulfil any additional responsibilities and mitigate any risks associated with the expansion of Elexon's role?

We believe the existing BSC Board should be reconstituted to ensure it operates at arms length from the new Elexon service company. There should be separate membership of BSCCo Board from the new Elexon service company Board to ensure there is no conflict of interest and to ensure BSC Parties interests are being protected.

5. Do you consider that the existing role of NGET in the BSC, in particular its ownership of the BSCCo and licence obligations, should be reconsidered and in what way?

Under the contract model we believe the licence changes would be minimal. National Grid has indicated that some Transmission Licence changes may be required, for example, in relation to references to the secretarial body.

6. Do you consider that the BSC Board is appropriately constituted and resourced to deliver its enhanced role, including the negotiation of contracts?

We agree that it may be necessary to augment the existing BSCCo Board to enable it to secure a suitable contract from the Elexon service company. A cost effective mechanism of achieving this could be to set up a specially convened committee drawn from BSC Parties.

7. Do you consider that the BSC should be given a right of 'step in'?

We agree that the BSC should be given a right to "step in". We agree that the core assets and functionality should remain within BSCCo with these then leased to the new Elexon service company. This will provide BSC Parties with the assurance that business continuity can be achieved in the event of the new Elexon service company failing.

8. What are your views on the best way to overcome the implementation challenges?

We do consider that the success of the contract model will depend on its ability to attract new investment particularly if it intends to bid for new contracts such as provision of the DCC. We agree that there is potential for Elexon (and therefore BSC Parties) to incur significant cost setting up the contractual

arrangements only for no new equity partner to be found. When assessing the feasibility of the new arrangements we do not believe it is unreasonable for Elexon to provide Ofgem with an indication of how successful it might be in attracting new investment. However we do not rule out the “do nothing “ option should Elexon believe it is unlikely to attract new investment.

Contract Model

9. Do you agree with our assessment that a contract could provide a relatively straightforward way of giving BSC parties confidence that they are not being called upon to carry the costs of new activities?

We do agree with Ofgem's assessment that a contract provides a relatively straightforward way of giving BSC parties confidence that they are not being called upon to carry out the costs of new activities. We believe any set up costs should be able to be off-set in future years by further efficiencies under the contract model.

10. If the contract model is adopted, do you consider it a viable option to create a contract on the basis of “as is” service levels and costs (+ margin to be negotiated) for a relatively short period with a requirement on the BSC to retender after a period of x years? If so what period do you consider appropriate?

We do agree that the contract should be put in place on an “as is” basis for a relatively short period of time. However we would agree with Elexon that 3 years may be too short to attract the required investment and would propose that a 5 year contract should be sufficient.

11. If the contract model is adopted, which assets, if any, do you consider should remain with the BSCCo or be transferred to the new Elexon?

We believe all assets should be retained by BSCCo. This will provide assurance to BSC Parties that business continuity can be protected. These assets can then be leased by the new Elexon service company.

12. If the contract model is adopted, what approach do you consider most suitable for ensuring that incentives exist for performance, that service levels are sufficiently defined and secured, and that value for money achieved?

We agree with the approach to service levels outlined in the consultation. The new Elexon service company should largely reproduce the existing arrangements with the current standards set out in a new contract between BSCCO and new Elexon. We agree that an incentive mechanism should also be put in place to ensure ongoing value for money is achieved.

Subsidiary Model

13. Do you consider that in the event the subsidiary model is adopted, a ring fence would provide a suitable safeguard of BSC Parties interests? Specifically, what are your views on:

a. The BSC Panel's ability to effectively hold Elexon to account under the subsidiary model?

As stated in a previous response we believe the BSC Panel requires substantial reform in order that wider representation of industry stakeholders is achieved. This would help to ensure that the BSC Panel is able to effectively hold Elexon to account under the subsidiary model.

b. Whether enhancing NGET's licence to put new responsibilities on them in respect of any ring fence provision would be a suitable approach?

Whilst enhancing NGET's licence could potentially provide a suitable ring fence we do not believe this is a suitable approach. Currently NGET has minimal interaction with BSCCo. We are concerned that Ofgem's enforcement powers would provide ineffective protection to BSC Parties.

c. Whether it would be better to do this through a new licence which would make Ofgem responsible for enforcement?

We have similar concerns as highlighted in the previous question as to whether making Ofgem responsible for enforcement would provide the most suitable safeguard of BSC Parties interests.