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Rachel Fletcher
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By Email only

06 January 2012

Dear Rachel,

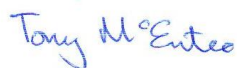
Response to Open letter consultation: Potential expansion of the role of Elexon

Thank you for the opportunity to respond to the above consultation.

We responded to Elexon's business plan consultation in January 2011 that we could see merit in Elexon being allowed to bid for the DataCommsCo role and for enabling modifications to be made to allow this to happen. We did not necessarily support Elexon or a related undertaking being given the role but we recognised that this could assist in identifying the most efficient structure for central bodies following the introduction of Smart metering.

We are supportive of the approach being taken by Ofgem and our responses to the questions raised in the consultation are attached. If you would like to discuss these in more detail please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Tony McEntee".

Tony McEntee

Head of Commercial Policy

Direct line 01925 846854

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Appendix 2 – Consultation questions

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

We support your four proposed conditions, namely

- Condition 1: BSC Parties should not face higher costs
- Condition 2: The arrangements should not place more risk on BSC parties
- Condition 3: Standard of service should be maintained
- Condition 4: Elexon’s BSC role should not give it any undue advantage in the DCC competition

These ensure that there is no detriment to the current levels of service and ensure that Elexon’s participation does not distort the competition to appoint the DCC.

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

We believe the contract model is suitable and brings the BSC into line with other industry codes, such as the MRA, with the potential for the administrator’s role being exposed to further market testing in the future. We do not support the subsidiary model as we do not believe it can be set up in a manner that would allow Elexon to fail and thereby additional costs and liabilities would inevitably fall on BSC Parties.

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

The BSC Panel does not need to change significantly under these arrangements though its terms of reference may need to be amended slightly. For example, it would no longer be appropriate for it to review Elexon’s business strategy, but it should review Elexon’s performance in providing services. It may have a role in the contract management and re-tender of the Elexon contract. There obviously needs to be clarity between the role of the BSC Board and the Panel.

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 would envisage that the Board would require some additional resources, but these could be limited depending on the role of the Panel in managing the Elexon Contract. The benefits of the proposed approach could be lost if BSCCo becomes too costly. Experience should be obtained from the costs of other bodies such as MRASCo and DCUSA Ltd.

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?

There appears no need to revisit NGET's role in respect of the ownership of BSCCo and licence obligations if the contract model is adopted.

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

As per our response to Q4, whilst the BSCCo Board may need some additional resource, this should be kept to a minimum to ensure that the new arrangements cost no more regardless of whether Elexon wins additional work or not.

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

This is essential. The arrangements must be structured in a way that Elexon can fail but the services to BSC Parties continue.

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

We do not believe that the restructuring is particularly complex and merely requires good planning and programme management. It does require, however, a detailed understanding of the costs involved and the securing of funding before the changes are put into place.

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 agree with this approach and note it is similar to arrangements used elsewhere in the industry.

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?

It would seem appropriate to use 'as-is' service levels and costs (less any additional costs to operate the BSCCo). Any margin should be achieved through Elexon delivering additional costs savings not through adding costs into the contract.

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?

All key IT assets and intellectual property should remain with BSCCo. Elexon should retain the staff and associated employment liabilities and property leases. With regard to property leases BSCCo should have step in rights to use buildings in the event of failure of Elexon.

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?

This would require more detailed consideration as part of the implementation programme, but it would be anticipated that a proportion of the revenues are at risk if the defined services levels are not met.

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:

We do not support the subsidiary model and we do not believe that Elexon should be allowed to expand using this approach.

a. The BSC Panel's ability 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?

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