7TH FLOOR KING'S PLACE / 90 YORK WAY / LONDON / N1 9AG
T +7789 500801 / www.logica.com

6th January 2012

Rachel Fletcher
The Office of Gas and Electricity Markets
9 Millbank
LONDON, SW1P 3GE

Dear Rachel

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

Although Logica are not a BSC party, we are a key supplier to Elexon in their role as BSCCo and follow their business plans and strategy closely. Having worked with Elexon for the last ten years, we believe that they have a significant amount of value to offer the industry. For this reason we support Elexon's desire to take on a wider role and remit in the industry and for them to seek ways to use their infrastructure and experience to the further benefit of the industry.

We have read your consultation and attended your Elexon vires meeting at Elexon's offices on 8th December 2011 and have some comments to make. We believe that most of your questions are directed at and most relevant to the stakeholders of Elexon i.e. the BSC parties and have therefore limited our response to your consultation questions that are relevant to us as a service provider to Elexon.

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 believe it is viable to create a contract on an "as-is" basis and the risk of this both operationally and commercially is very low for the following reasons:

- The service levels that Elexon have been operating to are well understood and documented and have been delivered reliably and robustly over the years. These service levels are also mostly backed off to their service providers in their subcontracts.
- The costs incurred by Elexon in running the BSC to date are also well known, understood and are published in their Business Plan and financial reports.

With respect to the term of the initial contract, your consultation suggested 3 years. We believe this is far too short an initial period and would in fact introduce avoidable risk. We believe that somewhere in the region of 8 to 10 years would be more sensible for the following reasons:

- A longer initial contract will provide more security for Elexon's staff and reduce the risk of them losing experienced staff at a time when the experience will be most needed.
- Elexon's main subcontracts for the main BSC services (Operate and Host and AMD) both will be mid re-procurement cycle within those 3 years. We believe that, if the Elexon contract itself was to be re-procured, the procurement and transition should be planned for mid-service provider contracts to minimise risk and disruption for the BSC parties.

- A much longer period would be needed to enable the transition to the new Elexon operating model and to give Elexon the opportunity to bed their new operating model in effectively.
- A longer period allows Elexon to be more innovative and to look for service improvements that will deliver a pay back.

Our understanding is that it is perceived that re-procurement of the Elexon contract under the contract model would be necessary to ensure that value is being delivered for the BSC parties. We believe that there are mechanisms that could be used in the contract model to ensure that this value is delivered that reduces the need for a quick re-procurement. These mechanisms are covered in our response to question 12 below.

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 believe that the service levels that Elexon deliver to the BSC parties are already very well defined and understood and that there is very little risk that appropriate service levels are not secured. This is a mature and understood service that has been operating on an open book and open reporting basis since the service began.

Given that Elexon's cost have been published in detail in their Business Plan's and financial reports, we also believe that the cost base that has been incurred to date to deliver the service is well understood and in the public domain.

We therefore believe that, given the industry agree that Elexon have been delivering value for money to date (which their customer feedback supports), then putting in place a contract on an as-is service level and cost basis would be considered value for money. The question then becomes how do you ensure continued value for money?

There a number of mechanisms that could be used to drive continued value for money (other than re-procurement):

- Continuing to operate your contract with Elexon on an open book basis
- Using gainshare mechanisms and financial incentives to drive costs down
- Using other standard commercial mechanisms like benchmarking, however this works best when there are a bigger pool of potential suppliers rather than in niche skills / contracts
- Setting performance targets or cost reduction targets with appropriate incentives
- Ensuring that innovation and service improvement form part of the service culture and is covered in the contract in such a way as to drive the right behaviours
- Establish year on year improvement levels that must be met

We would be happy to discuss these comments further with you if this would be helpful to your consultation process.

Yours sincerely

Sandra Bain
Elexon Account Director