

ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

Colette Schrier  
Senior Manager Commercial Regulation  
Distribution  
The Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

29 October 2012

Dear Colette,

### **Request to amend and clarify Ofgem consent for DNOs to hold shares in ElectraLink**

Thank you for your letter dated 19 September 2012, which sets out the process that Ofgem will adopt to grant an amended consent to DNOs to hold shares in ElectraLink. We are pleased to note that Ofgem intends to consult on the basis of a 'minded to' decision that the criteria are being met and we note that Ofgem is not seeking to limit ElectraLink's current and future commercial activities.

Set out in appendix 1 is how ElectraLink currently meets your 4 specific criteria and the safeguards in place that we believe will ensure the DTS remains unaffected by the proposed changes to the consent. We also answer each of your specific questions in appendix 2.

The consent defines boundaries in respect of markets and services that are aligned with ElectraLink's core services and markets. These limitations are one of a number of safeguards, contractual and governance, which ensure ElectraLink does not take on unnecessary levels of risk or commercial exposure.

The regulated DTS is delivered through the Data Transfer Service Agreement, a legally binding contract, which includes provisions governing standards of service, liquidated damages, limits of liabilities, IPR ownership, change control and an Ofgem controlled charging methodology. This contract provides a crucial safeguard in that it is a financial and service ring fence which protects DTS users from bearing ElectraLink's commercial risk.

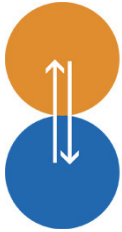
DTS users use the DTS as it offers an economic, standardised and efficient data transfer mechanism. They are not mandated to use it. DTS users have unequivocally demonstrated their support for



**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

ElectraLink's commercial activities by providing access to DTS data to allow the delivery of 'user pays' data analytics services and their readiness to enter into commercial contracts for ElectraLink services such as DUoS e-billing, RGMA, DCUSA code governance etc.

Our commercial services are provided, by and large, to the same companies that are users of our regulated DTS services. It is infeasible therefore that ElectraLink could successfully diversify were it not to continue the successful delivery of the DTS and it is very strongly in ElectraLink's interest to protect its reputation for the DTS.

It should be noted that ElectraLink's DTS role does create benefits, synergies and economies of scale that can be delivered to the broader industry through the use of shared infrastructure, assets and resource. This, together with our in-depth expertise and track record in the energy industry and its related data, is a genuine competitive advantage. However, we do not for the reasons outlined below view this competitive advantage as 'undue'.

The DTS is not charged any costs incurred by ElectraLink in delivering its commercial services. The costs of providing the DTS would not reduce if ElectraLink ceased its commercial activities. The DTS benefits directly from synergies created across both sets of activities.

ElectraLink would direct Ofgem's particular attention to our existing and long-established corporate governance and accounting policies as detailed in our response to criterion 4 below. Our sound corporate management ensures that risk is managed, services are protected and the company is managed and run with reference to best corporate practice.

As previously discussed, ElectraLink is considering a number of commercial opportunities linked to the DECC SMIP procurement including DCC Users Gateway (DUG) services to the Data Service Provider (DSP) bidders and code administration in support of the Smart Energy Code (SEC).

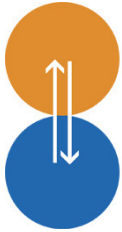
The DUG can be viewed as a version of the network used to deliver the DTS that has been extended and, for some purposes, enabled for faster data transfer. 100% of the electricity users and 55% of the gas users of DUG are already connected to our network. The DUG is not a high-risk activity for ElectraLink. The same principles and arguments would apply to the provision by ElectraLink of code administration services for SEC.

DECC's procurement programme for the DSPs has already commenced and SEC code administration



ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

procurement is likely to commence in the first quarter of 2013. In light of this timing it is critical that the revised consent is approved by Ofgem no later than the date that ElectraLink will need to provide contractually binding pricing into the DECC DSP procurement.

**Accordingly, in order to be able to avail itself of these potential new commercial opportunities, ElectraLink would need to have any prerequisite change to the existing SLC29 consent put in place by Ofgem by no later than 11 January 2013.** ElectraLink would therefore encourage Ofgem to issue its consultation no later than the end of November to ensure the timescales can be achieved.

It would clearly be helpful to have this cleared before the seasonal holidays. ElectraLink is encouraged by Ofgem's letter and its reference to discussions with DECC to believe that such a timescale provides Ofgem with sufficient time to conduct the proposed consultation. ElectraLink would welcome sight of the proposed consultation prior to its publication.

Yours sincerely

Brian O'Shea  
Chief Financial Officer



**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR

## Appendix 1: Ofgem's Criteria

This appendix sets out how ElectraLink currently meets your 4 specific criteria and the safeguards that are in place which we believe ensures the DTS remains unaffected by the proposed changes to the consent.

The proposed changes to the consent define boundaries in respect of both markets and services that are aligned with ElectraLink's core services and markets. These limitations continue to provide one of a number of safeguards against ElectraLink taking on diversified activity that might give rise to risks to the DTS that could be contrary to the common interests of the company and DNOs, as well as DTS users.

ElectraLink's existing commercial activities fall broadly into services based on data transfer and analytics and code governance services. DTS users have unequivocally demonstrated their support for our commercial activities.

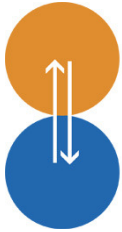
DTS users use the DTS as it offers an economic, standardised and efficient data transfer mechanism. Its use is not mandated and, whilst the DNOs are required by licence to make available a data transfer service, DTS users (suppliers, supplier agents, settlement bodies etc) are not required to use it. Parties can withdraw from the DTS at any time and put in place their own data transfer arrangements.

Our commercial services are provided, by and large, to the same companies that are users of our regulated DTS services. These companies rank both the DTS and ElectraLink's commercial services in independent user surveys consistently ahead of comparable organisations serving the same set of customers. It is infeasible therefore that ElectraLink could successfully diversify were it not to continue the successful delivery of the DTS and it is very strongly in ElectraLink's interest to protect its reputation for the DTS.

Your letter reflects a view that there are some similarities between ElectraLink's position and the work undertaken to unlock Elexon's vires to allow them to pursue commercial activities without limitation on scope of either services provided or markets. We note Ofgem's preference for the "contract model" in that case. ElectraLink currently delivers the DTS using the "contract model" via the DTSA.

ElectraLink has existing and long-established corporate governance and accounting policies as detailed in our response to criterion 4 below. Such a framework is identified in the Elexon consultation as a





# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

fundamental component of an effective and properly controlled organisation.

## **1. DTS users should benefit from any diversification.**

DTS Users benefit from ElectraLink diversification in a number of ways.

Firstly, ElectraLink utilises common infrastructure, assets and resources wherever possible to deliver economies of scale and efficiencies to our customers including our regulated DTS users. DTS users are not exposed to additional costs as a result of our diversification.

The DTS Charging Principles do not allow a profit on the costs we charge to the DTS, which are 'pass-through' to DTS users, with ElectraLink only allowed to make a funding charge on the capital provided in order to bridge the timing difference between DTS costs being incurred and their recovery through DTS charges. DTS users therefore cannot and do not fund our commercial services or provide any form of start-up capital for such activities: rather the reverse is true.

Secondly, we believe that in ElectraLink we have successfully resolved the conundrum of needing commercially able people to exhibit the commercial behaviours you would expect in a competitive market, delivering exceptionally high levels of service and class-leading value, whilst operating what is essentially a not-for-profit franchise in the DTS. Recent DECC consultations around SMIP's component organisations illustrate that this is a challenging goal, but one we believe we have met at ElectraLink through commercial diversification and having a commercial ethos and company culture.

DTS users benefit from this commercial approach being adopted for the regulated DTS. We manage our regulated service subcontractors as we would manage a commercial subcontractor and, for example, require them to meet a comprehensive range of demanding service levels, provide liquidated damages for non-performance and give over rights to IPR. At the last procurement of the infrastructure over which the DTS is provided, ElectraLink delivered ~£8m of cost savings. All of these cost savings were passed through in full to DTS users. ElectraLink's fixed costs are not material and would not be affected if it did not carry on its commercial activities. The DTS does not bear any costs incurred in respect of our commercial activities.

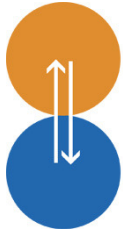
Thirdly, ElectraLink's diversification has allowed for the creation of a new competitor in the central energy services market. As previously stated, many of the DTS users are customers of these services and ElectraLink's commercial diversification offers choice, enables an efficient market, creates



**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

competition and ultimately delivers benefit to the users. ElectraLink develops all its commercial services at its own risk and examples of the benefits of commercial diversification to users include:

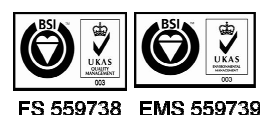
- Our RGMA service provides suppliers and their agents with a choice for data transfer. Our service removes the potential for a multitude of bilateral arrangements, which would be inefficient, increase the potential for disputes, and undermine the standardization established by RGMA.
- Our DUoS e-billing service has significantly improved the Use of System billing process through eliminating validation errors and associated costs.
- Our File Cloner service enabled the efficient bulk transfer of customers as part of the supplier-of-last-resort processes used for recent corporate failures e.g. Bizzenergy and Energy Direct
- Our diversification into code governance and administration created a new competitor in the market. This has driven down the cost of code governance and ElectraLink has competitively won the contracts for the two most recent codes, SPAA and DCUSA.

ElectraLink conducts annual customer satisfaction surveys and is ranked 1<sup>st</sup> amongst the Central Bodies year on year for service excellence. Our value-for-money scores are excellent, with 80% of respondents in 2011 ranking us higher than 8/10 for professionalism.

ElectraLink's ability to offer a varied and challenging blended regulated and commercial environment means it can attract and retain suitably qualified staff. The absence of a commercial environment would create recruitment, retention and progression challenges in respect of the DTS.

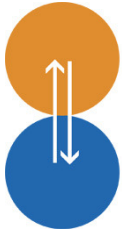
Fourthly, the ability of ElectraLink to diversify commercially has fostered innovation, which directly benefits the users. ElectraLink proactively asked the users for permission to access the data crossing the DTS, which they granted subject to suitable data protection and reporting conditions. The resultant data services that ElectraLink has been able to develop improve industry processes, enhance the customer experience and drive efficiency. For example, ElectraLink is engaged with a number of switching organizations to provide insight into both gas and electricity change-of-supplier processes which enable them to ensure that consumers can be kept fully informed of their progress in switching supplier.

ElectraLink offered to deliver these services as a "regulated activity" under the DTSA. However, the DTS users consider these services are best delivered through a commercial 'user pays' regime with the



ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

DTSA clearly defining that the costs of establishing such services are not borne by DTS users.

## **2. The new arrangements should not place disproportionate risk on DTS users.**

The regulated DTS is ring-fenced and protected from ElectraLink's commercial activities.

The DTS is delivered through a legally binding service contract, the Data Transfer Service Agreement (DTSA). This defines ElectraLink's liabilities, service obligations, charging structure and IPR safeguards. ElectraLink cannot amend or vary the DTSA without DTS user approval and in some instances Ofgem approval is required. The contractually binding DTSA fully safeguards against ElectraLink shifting commercial risk onto the DTS Users.

As noted in your letter, ElectraLink is already delivering, with DTS user endorsement, commercial services to the UK energy market including electricity services. This has been achieved while increasing DTS service excellence and without any undue increase in DTS risk.

Our commercial services are well defined, developed against clear functional requirements and complementary to our core regulated activities. We operate in the utility market and the proposed consent reflects this. We use ISO accredited policies, processes and procedures. There are processes in place to manage technical and commercial risk. We will only accept reasonable limitation of liability in our commercial contracts.

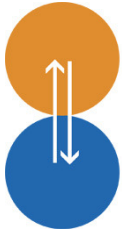
ElectraLink has in place a delegated authority structure as defined in our Articles of Association. The limits of authority delegated below shareholder level are reflective of the enduring shareholder interest in ElectraLink delivering the DTS and thereby fulfilling SLC37 obligations. For example, any contract with an aggregate value of >£10m over 5 years, any taking on of borrowings or indebtedness or the sale or licensing of DTS IPR or material assets all require shareholder approval. Shareholders are also required to provide funding to the company if required, which ensures that it is shareholders and not DTS users who would be required to resolve any financial distress due to commercial diversification.

ElectraLink's documented delegated authorities provide a suite of controls for the board sufficient to ensure that the management of the company does not contract for unduly risky or onerous commercial contracts. The legal structure of the DTSA ensures that commercial activity is ring-fenced and the current risk profile is maintained. DTS users are protected against financial distress caused by



ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

ElectraLink's commercial activities, while the company's shareholders are required via the Articles of Association to provide funding in support of ElectraLink as and when required. The shareholders have an ongoing interest in ensuring SLC37 is delivered. Our board members, executive team and shareholders operate within a culture of active risk management.

ElectraLink can confirm it has not anticipated or incurred a financial loss on any of its existing commercial contracts.

### **3. Standards of service under the DTSA should be maintained.**

Recognising that the DTS provides an essential service for users and their customers, it is based on three levels of service assurance – component reliability, systems resilience and a rapid and seamless recovery, usually without user intervention, from any service-affecting failure. Timely updating of hardware and software helps to ensure any DTS issues are identified before service can be affected. ElectraLink works closely with users to help ensure that overall service levels are not affected by failings within their own equipment and systems.

The DTSA includes a defined set of service levels. These service levels cover central service availability, user network connection availability and data transfer times. These service levels can only be changed with DTS user approval and are fully backed off through a contract with ElectraLink's principal service provider. Any service credits received under that contract are passed on in full to the DTS users. A DTS Performance Report is produced and circulated to all DTS contract managers monthly. DTS users also receive detailed performance reports on a monthly basis and ElectraLink holds monthly service review meetings with its service providers.

Any ongoing failure to meet the standard of services would be a material breach of the DTSA and could be construed as a failure of SLC37. Therefore it is clearly in ElectraLink's and its shareholders' interest to ensure the standard of service is maintained.

Our DTS performance record, as shown below, is clear evidence that our commercial diversification has not affected the standard of services required under the DTSA. The service measures shown in the charts below are overall service availability (OSA) and overall service throughput (OST), the second being a measure of message throughput within defined time limits.

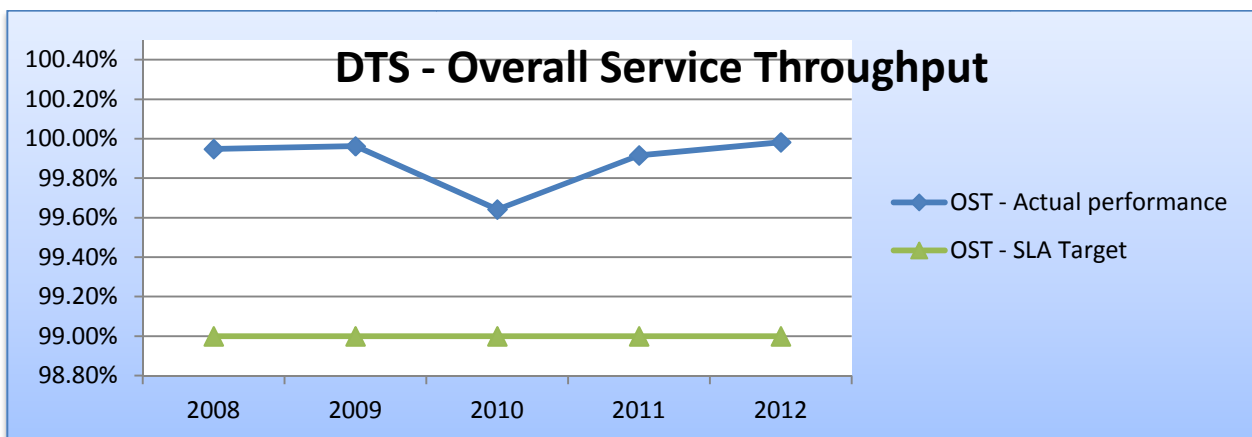
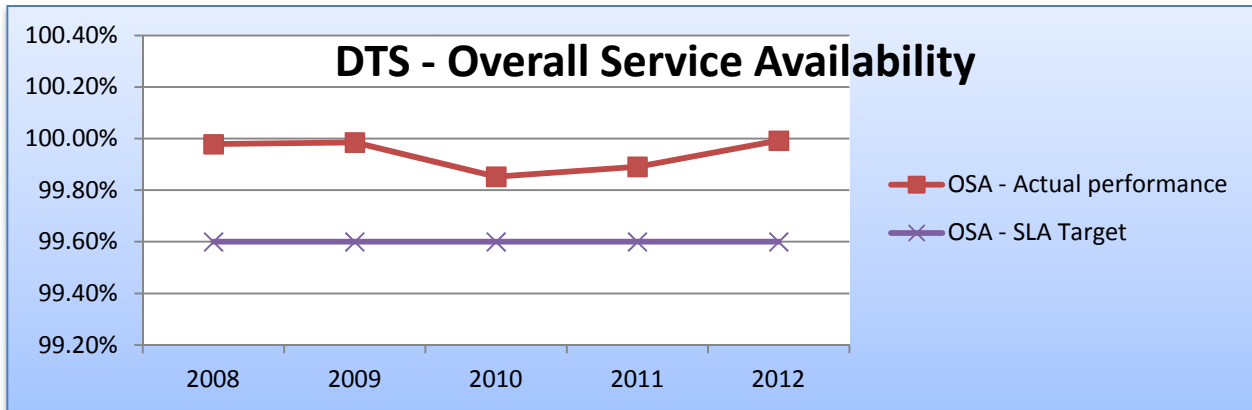
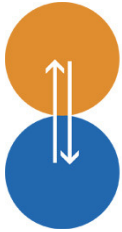


**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR





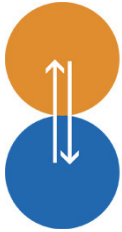
ElectraLink has also proactively negotiated improved SLAs with its data network service provider, despite having no contractual obligation to do so, and the benefits of this have been passed on in full to DTS users.

As noted earlier, ElectraLink consistently achieves exceptionally high ratings in its annual independently conducted customer satisfaction survey. In the 8 key areas of measurement ElectraLink scored more than 4 out of 5 in all areas.

#### **4. ElectraLink's DTSA role should not give it any undue competitive advantage in a contestable activity.**

It should be noted that ElectraLink's DTS role does create benefits, synergies and economies of scale that can be delivered to the broader industry through the use of shared infrastructure, assets and resource. This, together with our in-depth expertise and track record in the energy industry and its





# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

related data, is a genuine competitive advantage. However, we do not for the reasons outlined below view this competitive advantage as 'undue'.

ElectraLink has in place a robust and appropriately constituted board, including non-executive and independent directors that operate in keeping with corporate best practice. ElectraLink is a private company and, although not required to do so, complies with the UK Corporate Governance Code. The board also operates with full regard to the core obligation for delivering SLC37 compliance via the successful delivery of the DTS.

ElectraLink has in place appropriate accounting policies and practices. Costs are clearly identified and charged to the service (cost or profit centre) to which they relate. The DTS does not bear any costs associated with commercial activities. All costs incurred in respect of our commercial activities are funded by the company's shareholders. All commercial opportunities are costed and priced using recognized standard accounting practices. ElectraLink's fixed costs are not material and would not be materially affected if it did not carry on its commercial activities. The scale of our fixed costs does not provide any undue competitive advantage. The network necessary to deliver the DTS was procured in open competitive tender.

The company has not the scope (given the pricing arrangements for the DTS, the above safeguards, and the scale of the business) to cross-subsidise its commercial activities in order to obtain undue competitive advantage.

ElectraLink's ability to participate competitively in the electricity market, recognizing the current consent fully allows operations in the water and gas markets, will add strength of competition in that market.

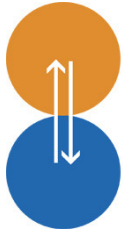
ElectraLink would consider that criterion 4 is largely achieved through achievement of criteria 1-3.



**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

## Appendix 2: Ofgem's Specific Questions

Ofgem has also requested that the following questions be addressed. I apologise for some reiteration of points already made in order to ensure each response is complete in itself.

**1. *Can we be assured that ~~DTS~~ DTS users will / can never face higher charges as a result of ElectraLink's commercial activities and that ~~DTS~~ DTS activities will not and cannot cross-subsidize commercial activities in any way?***

Yes, ElectraLink can give assurance that DTS users will not face higher charges as a result of ElectraLink's commercial activities.

Our response to criterion 1 shows that commercial diversification delivers benefits to DTS users and the broader industry and, ultimately, consumers. This is achieved through leveraging shared infrastructure and economies of scale. ElectraLink's accounting practices ensure that costs are charged appropriately. Our Articles of Association clearly define our different activities, regulated and unregulated, and the DTSA provides significant ring-fence safeguards around which costs which can be charged to the DTS users. DTS users have sight of the annual budget and have powers to call for an external audit of our pricing and/or to forestall any increase and refer any disputes on charges to Ofgem.

The DTS Charging Principles clearly define the costs that can be charged against the DTS. Failure to comply with the Charging Principles would be a breach of contract. The DTS does not bear any costs incurred in respect of the delivery of our commercial services.

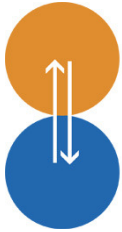
As noted in your letter, ElectraLink has been successfully providing commercial services for a number of years. Appendix 1 shows a graph of the cost per MPAN per annum of the DTS since 2001. This graph clearly demonstrates the downward pressure on DTS charges since 2001. It also shows that diversification has not resulted in any increased cost to DTS users. Please note the figures quoted are "money of the day" and have not been inflated to reflect 2012 values. Allowing for inflation, the 2012 cost reflects a 70% reduction on the 2001 cost. The DTS is expected to cost 17p per MPAN per annum for 2012. The slight upward movement from 2010 reflects the impact of smart metering and additional DTS activity required for the changing nature of users' obligations in the energy market e.g. Green Deal.



FS 559738 EMS 559739

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

ElectraLink can confirm that DTS users will not face higher charges as a result of any commercial activity and that no costs incurred in our commercial activities will be charged to the DTS.

DTS costs are coming under pressure from the gradual crystallisation of SMIP requirements. ElectraLink, with the agreement of DTS users, has been active in SMIP, sharing proven DTS features and processes that are closely analogous to smart requirements and gauging whether or how the DTS may be affected by the mass deployment of smart meters.

Reflecting the fluidity of these developments, a change to the DTSA has been proposed to allow users an increased voice in the annual budgeting process. ElectraLink is supportive of this change. ElectraLink has also agreed to circulate indicative prices for the coming year early to support DTS users' own business-planning processes.

**2. *Can it be confirmed that the measures Electralink has in place to maintain resources and funding for DTS activities are adequate?***

Yes, ElectraLink has in place all the measures necessary to maintain adequate resources and funding for DTS activities.

The restrictions on ElectraLink share ownership and share transfer enshrined in the company's Articles of Association and Shareholder Agreement mean that share ownership is limited to the licensed DNOs. This is a critical safeguard. The linkage between ElectraLink's ownership, SLC37 and the contractual provisions of the DTSA helps to ensure the DNOs' enduring interest in ElectraLink's delivery of the DTS is preserved.

ElectraLink's Articles of Association require the DNOs to provide £3.5m funding on demand to support the DTS if required. The company's shareholders are also required to provide corporate funding unrelated to the DTS and, as such, this eliminates the potential for DTS users being required to fund any financial distress due to commercial activities.

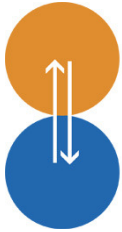
Our existing corporate governance regime, specifically our scheme of delegated authorities, means that any sizeable commercial activity requires shareholder approval. ElectraLink is required to demonstrate that the DTS will not be unduly affected or put at any undue risk as a result of the new



**FS 559738 EMS 559739**

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

commercial activity. Shareholders are not expected to approve any commercial activity that would unduly risk delivery of their licence obligations.

ElectraLink considers that the existing corporate governance and risk management processes and procedures and contractual ring-fences are, and will continue to be, sufficient to ensure necessary DTS funding.

**3. How do you propose to continue to achieve compliance with DNOs' obligation to provide or procure Data Services in the most efficient and economic manner practicable?**

Clause 5.1 of the DTSA requires ElectraLink, along with a number of other obligations, to provide and procure services in the most efficient and economic manner. This provides a contractual requirement on ElectraLink reflective of the obligation within SLC37. As detailed above DTS users are not mandated to use the DTS. They chose to do so as it offers a standardised and economic solution. If it did not achieve this aim then DTS Users would seek alternative means of exchanging data.

There are no plans to change this DTSA contractual obligation. This obligation, along with the ability of DTS users to challenge any unreasonable change in operating costs and the ability to call for audit, is sufficient to exert the necessary pressures on ElectraLink to deliver an economic service.

The procurement of the services necessary to deliver the DTS is subject to the competitive procurement obligations in the Utilities Contracts Regulations 2006.

Demonstrable competence in procurement and the ongoing contract management of contractors is key to ElectraLink's success in developing its commercial services.

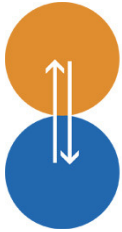
As previously noted, and I appreciate this is only an issue for management, it may become difficult for ElectraLink to attract and retain people with the well developed commercial skills necessary to '*provide or procure Data Services in the most efficient and economic manner practicable*', to the benefit of DTS users, without the context of a broader portfolio of commercial activities.



FS 559738 EMS 559739

ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

**4. Will it be necessary to mandate separate accounting and reporting between commercial and regulated activities within Electralink?**

No, ElectraLink has in place all the necessary accounting policies and procedures to manage its costs and allocate those costs to the appropriate cost and profit centres. These are audited annually by Deloitte and ElectraLink has achieved a clean audit for each year of its existence. In no year have the auditors required adjustment to our accounts.

Our annual financial reports provide a heightened level of disclosure over and above that required for a private company, including a full explanation of the DTS Charging Principles. Since its formation in 1998 ElectraLink has received a clean audit report each year, with no material inconsistencies or accounting errors identified or reported to the board.

As well as complying with its obligations under the DTSA in respect of distribution of the DTS budget, ElectraLink provides an enhanced level of reporting and transparency to the DTS users. The DTS User Group is provided with regular updates on expenditure against any exceptional cost budget allowances ratified by the DTS User Group, including provision of resource in support of SMiP, costs incurred in integrating Green Deal arrangements etc.

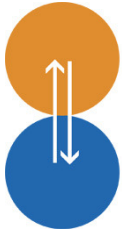
The DTS users have the ability to call for an external audit of the DTS charges at any time. The last audit, initiated by the company itself with user agreement, was carried out in 2003 and the company received a clean report. No issues were highlighted. ElectraLink recommended an audit of the 2011 charges, due to the impact of the exceptional costs outlined above, but the DTS User Group considered this was not necessary.

ElectraLink is a very small company relative to the principal users of the DTS. Nevertheless, extensive financial and performance reporting already takes place in accordance with the DTSA and Company Law, the former offering greater transparency, protections and remedies for users than the latter provides. We are working with users to ensure they have the information they need to understand the basis of DTS costs and prices in as timely a fashion as uncertainties external to the company permit. I would not anticipate that devising and implementing an alternative accounting and reporting regime would of itself much better inform DTS users, although it would ultimately drive up costs to them and place an undue level of overhead on a small company.



ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

**5. How will existing governance arrangements concerning the ~~DTN~~ DTS need to be adapted to take account of ElectraLink's proposed expansion?**

No change is necessary to the current arrangements as they are wholly adequate to ensure proper governance is achieved.

As has been outlined above, ElectraLink has for a number of years been providing an extensive range of commercial services in both the gas and electricity markets. Existing governance arrangements have coped well with these developments.

The DTSA contains a number of key provisions that provide the DTS users with a broad range of controls and contractual rights that are in excess of what would normally be found in a commercial contract, but are properly reflective of the regulated nature of the services provided under the DTSA and the essential nature of those services.

The DTS change process is almost entirely within the control of the DTS users, with ElectraLink acting as a facilitator and manager of the change process. ElectraLink provides technical input into the impact assessment of any change but is not a member of the DTS User Group and cannot vote on changes. ElectraLink must comply with the decision of the DTS User Group except in limited circumstances such as where the change is technically not feasible or ElectraLink is economically disadvantaged by it. ElectraLink can confirm it has never declined a change to the DTSA or the service.

The DTSA allows for the concept of "Additional Services" whereby DTS users, either individually or as a subgroup, can request additional services supplementary to the core services provided. This route allows DTS users to request bespoke services at cost price.

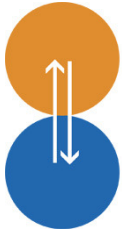
Whilst these DTS user rights and controls are right and proper given the regulated nature of the services provided under the DTSA, an extension of the controls of DTS users to ElectraLink's commercial services is not considered appropriate and would in our view stifle competition and innovation. ElectraLink develops its commercial services wholly at its own risk and DTS users do not contribute to the cost of developing these services.

DTS users specifically recognised this separation between regulated services provided under the DTSA and commercial services provided elsewhere, at risk, by ElectraLink when agreeing to changes to the DTSA this year to allow the company to develop data services. There is a clear statement of intent by



ElectraLink Ltd

Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F 9HR



# ElectraLink

ElectraLink Ltd.  
Ground Floor  
Grafton House  
2/3 Golden Square  
London W1F 9HR

Tel: 020 7432 3000  
Fax: 020 7432 3015

[www.electralink.co.uk](http://www.electralink.co.uk)

the DTS users to that effect in Schedule 9 of the DTSA as follows:

**5. Service Charges**

- 5.1 *The costs associated with the Service Controller's provision of the Data Analysis Services will be borne by the Service Controller and/or the relevant DAS Customer(s), and shall not be included in the Charges.*
- 5.2 *The charges and terms of payment applicable for each Data Analysis Service shall be set out in the individual DAS Contracts.*

There is a high degree of DTS user control within the DTSA. We have enjoyed unequivocal DTS user support for our commercial activities, undoubtedly a reflection of the benefits to the DTS from our commercial operations combined with the clear overlap in our DTS user and commercial customer bases. Equally, in view of this overlap, our most significant commercial customers would not sign commercial contracts with ElectraLink if they considered that the regulated DTS, which supports the supplier-hub principle including key industry processes, would be put at risk as a result of such activities. Accordingly, ElectraLink does not consider any changes are required to the current governance arrangements in the DTSA.



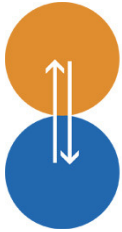
**FS 559738 EMS 559739**

ElectraLink Ltd

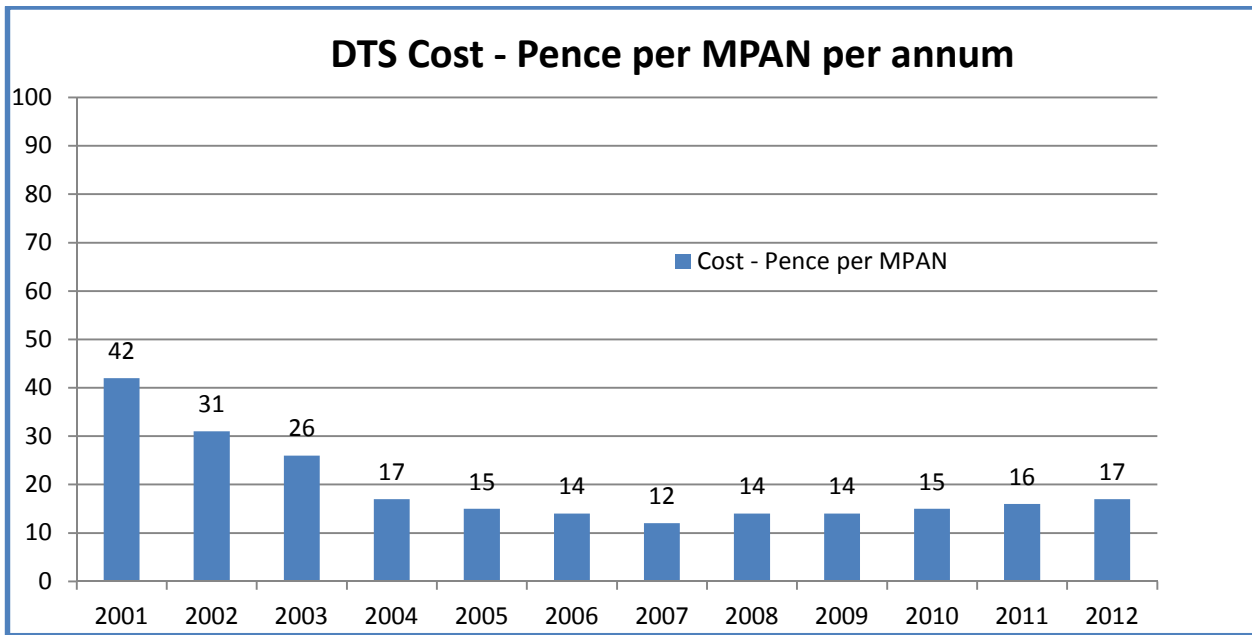
Registered No: 3271981 VAT Registration No: 698 2336 89. Reg Off: Ground Floor, Grafton House, 2-3 Golden Square, London W1F

9HR





### Appendix 3 – DTS Cost – pence per MPAN per annum



The numbers quoted are “money of the day”. Historical data has not been adjusted to reflect a comparable 2012 value.

