

Lesley Nugent
Ofgem
9 Millbank
London
SW1P 3GE

21 November 2014

Dear Lesley,

**CONSULTATION ON A POTENTIAL LICENCE MODIFICATION TO ENABLE
FUTURE EXPANSION OF THE ROLE OF ELEXON LIMITED**

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

We are supportive of the principle that Elexon should be enabled to undertake wider activities, provided that these activities are broadly consistent with its current role and do not expose BSC Parties to inappropriate levels of risk. We consider that it would be appropriate (subject to Authority permission and a suitable BSC modification in each case) for Elexon to expand its role into providing other central market functions in the electricity wholesale, and electricity and gas retail, markets. We do not, however, believe it would be appropriate for it to provide services outside this scope, at least under the current governance and funding arrangements.

Under the current governance arrangements, if Ofgem were to make the proposed modifications to the electricity transmission licence, any recommended change to the Elexon/BSCCo remit would be voted on by the BSC Panel, on which most individual BSC Parties are not directly represented. With the exception of central market functions defined above, we do not think that Parties should be exposed to the commercial risks associated with Elexon expanding its role other than with their consent. The Knight Report made recommendations on voting rights for BSC Parties in these circumstances, but at this stage any modifications to the electricity licence should limit Elexon/BSCCo's additional roles as suggested above.

Our answers to the questions raised in the open letter are in the attached Annex. Should you wish to discuss any aspect of this response, please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

CONSULTATION ON A POTENTIAL LICENCE MODIFICATION TO ENABLE FUTURE EXPANSION OF THE ROLE OF ELEXON LIMITED – SCOTTISHPOWER RESPONSE

Question 1: Do you agree with the intent of this consultation?

Broadly, yes. Changing market conditions, particularly the move towards smarter markets, make a compelling case for more flexibility in industry codes' governance, so as to take advantage of the synergies that may exist between the various central market functions for gas and electricity. In particular, the knowledge, skills and competencies that exist in Elexon could be used more widely, but only if Elexon is able to pursue activities outside of the narrow remit of the BSC.

However, while we are supportive of the principle that Elexon/BSCCo should be enabled to undertake wider activities, we believe that any such activities should be broadly consistent with its current role and should not expose BSC Parties to inappropriate levels of commercial risk, or bring the BSCCo into conflict with the interests of any BSC Party. We consider that it would be appropriate (subject to Authority permission and a suitable BSC modification in each case) for Elexon/BSCCo to expand its role into providing other central market functions in the electricity wholesale, and electricity and gas retail, markets¹, but we do not believe it would be appropriate for it to provide services outside this scope, at least under the current governance and funding arrangements.

Under the current governance arrangements, if Ofgem were to make the proposed modifications to the electricity transmission licence, any recommended change to the Elexon/BSCCo remit would be voted on by the BSC Panel, on which most individual BSC Parties are not directly represented. With the exception of central market functions defined above, we do not think that Parties should be exposed to the commercial risks associated with Elexon expanding its role other than with their consent. The Knight Report² made recommendations on voting rights for BSC Parties in these circumstances, but at this stage any modifications to the electricity licence should limit Elexon's additional roles as suggested above.

Question 2: Does the licence drafting in Appendix 1 fulfil the intent of the modification?

As explained in response to Question 1 above, we think the licence drafting should be amended to as to restrict any expansion of BSCCo activities to central market functions in the electricity wholesale, and electricity and gas retail, markets.

Question 3: Do you have any other suggestions for the drafting?

See our response to Question 2, above.

¹ The additional activities which have recently been added to Elexon's remit (WHD administration and EMR settlement service provider) are examples of such central market functions.

² Bill Knight OBE final report on 'The Governance of Elexon': <http://www.elexon.co.uk/wp-content/uploads/2013/07/The-Governance-of-Elexon-Final-Report.pdf>

Question 4: Does the licence drafting distinguish clearly between the BSCCo (Elexon) and the code administrator (a role that is fulfilled by Elexon)?

Yes, although the reference to BSCCo affiliates in 1A may be unhelpful, and might better to reference the BSCCo or the Code Administrator. Also we would prefer that 1B required the BSCCo to provide or procure rather than 'provide and procure'.

Question 5: Do you think there would be any unintended consequences of inserting a reference to the BSCCo into the transmission licence?

No, provided that the BSCCo can remain clearly distinguished from Elexon; otherwise, we think there may be some risk that the range of services Elexon is able to provide could be unnecessarily constrained.

Question 6: Do you agree that paragraph 13AA is helpful/needed?

It helps to clarify the position, although it is difficult to imagine a situation where the panel might otherwise construe such a modification as self-governance.

ScottishPower
21 November 2014