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| Modification proposal: | Balancing and Settlement Code (BSC): Profile administrator: creating flexibility in discharging the service (P255) | | |
| Decision: | The Authority ¹ directs that the proposal be made ² | | |
| Target audience: | National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties | | |
| Date of publication: | 15 July 2010 | Implementation Date: | 22 July 2010 |

Background to the modification proposal

The role of Elexon, which is referred to in the Balancing and Settlement Code as the BSC Company (BSCCo)³ is set out in Section C of the BSC as being to provide and procure facilities, resources and services required for the proper, effective and efficient implementation of the BSC. Section C also stipulates that BSCCo shall have the powers, functions and responsibilities set out in or assigned to it pursuant to the BSC, and shall not undertake any business or activity other than provided for in the BSC.

The majority of activities required to operate the BSC are procured by Elexon through competitively tendered contracts, which Elexon then manage. This includes the Profile Administrator service (PrA).

The PrA service is broadly split into two parts, the first of which is to collect metered data across the course of a year from a representative sample of Non-Half Hourly customers. The data is then analysed and used to produce a series of generic Load Profiles, which are then used to allocate the Non Half Hourly energy to specific half hours for settlement purposes.

On 23 December 2003 the Authority directed that modification P133 be made. That modification was raised as the existing PrA service provider had submitted notice that it intended to withdraw from the role upon expiry of their contract. This created a perceived risk that an alternative service provider with the relevant expertise to undertake the PrA role might not be found. This could compromise the quality of settlements and ultimately could place Elexon in breach of its obligations under the BSC. P133 enabled Elexon to assume the role of PrA in the event that a suitable agent could not be found. In the event that Elexon did assume the PrA role, P133 also required Elexon to seek the Panel's further approval before it could carry out the role for more than one year.

The modification proposal

The current PrA contract is due to expire on 31 March 2011. Notwithstanding that this raises similar concerns to those set out above, Elexon considers that splitting out the two elements of the service may make it more attractive to potential bidders, who may only be interested in part of the PrA service. Elexon also considers that it may be able to achieve cost savings by bringing the data analysis element of this service in house.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ BSCCo is defined in Annex X1 'General Glossary' of the BSC meaning Elexon Limited (or any successor to that company acting in the capacity as BSCCo)

The Panel agreed at its meeting of 8 April 2010 that P255 should be raised in response to Elexon's recommendations. P255 seeks to provide a greater degree of flexibility in the way that PrA services are procured and allow Elexon, with the agreement of the Panel, to undertake all or part of the PrA service in house. It would also remove the requirement for Elexon to obtain further approval from the Panel after only one year, allowing it to carry out the service for a period more in keeping with its normal contract durations, i.e. potentially up to five years. However, the panel will be required to provide further approval if Elexon's ability to discharge that service materially changes, which could undermine the basis of the original business case.

In the event that the Panel do not agree to Elexon providing any or part of the PrA service in house, whether owing to the lack of a robust business case or otherwise, Elexon will be obligated to undertake a BSC Agent procurement in accordance with Section E of the BSC.

For the avoidance of doubt, P255 will not alter the role of the PrA in any way, or the responsibilities of any other BSC Parties or Party Agents.

BSC Panel⁴ recommendation

The BSC Panel considered the draft Final Modification Report (FMR) at its meeting on 10 June 2010. The Panel unanimously agreed that P255 would better facilitate Applicable Objectives (d). Further details of the Panel's views appear in the FMR.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 10 June 2010. The Authority has considered and taken into account the responses to Elexon's⁵ consultation which are attached to the FMR⁶.

The Authority has concluded that:

1. implementation of the modification will better facilitate the achievement of the relevant objectives of the BSC⁷; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁸.

Reasons for the Authority's decision

We agree with the working group and the Panel that only Applicable Objective (d) is relevant to this proposal.

⁴ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

⁵ The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

⁶ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.Elexon.co.uk

⁷ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=15038

⁸ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

Applicable BSC Objective (d) – promoting efficiency in the implementation and administration of the balancing and settlement arrangements

We agree with the respondents who suggested that removing constraints on Elexon's flexibility on how it procures the PrA service should be expected to lead to more effective procurement and cost savings.

We note the arguments made by Elexon that the scope and nature of this service may need to change in the future due to the evolving nature of the metering market and the roll out of smart metering. This enabling modification may allow Elexon to more quickly adapt to these changes. These market based changes may also limit the attraction of PrA to potential service providers and may reduce the degree of competition for any future invitations for tender Elexon may issue. We agree that flexibility in the contracting strategy for the different parts of the service, including bringing some of the services in house, may provide efficiencies given the nature of the differences in the service elements.

We note that this modification does not of itself determine the means by which the PrA service will be provided, but gives the Panel discretion to allow Elexon to carry out some or all of this service, where it considers itself to have the necessary in-house expertise.

Elexon have a unique role in the balancing and settlements arrangements and it is appropriate that there are sufficient checks and balances on such an approach. We agree that the proposed flexibility provided by this modification needs to be accompanied by robust governance through the BSC Panel.

The BSC Panel amongst other things is responsible for ensuring that the BSC is given effect fully and promptly and ensuring that the BSC is given effect as economically and efficiently as reasonably possible. Therefore this proposal, which seeks to ensure that the Panel provide the necessary checks and balances on the approach to deliver this service, is appropriate and in-keeping with their current responsibilities. Elexon will need to be able to demonstrate through a robust business case that it is capable of carrying out the service more cost effectively than had it been outsourced. Equally, this cannot be at the expense of any other role that Elexon may be required to fulfil. The Panel's role is critical in reviewing the robustness of any business case presented and to ensure the requirements of the PrA service are delivered fully and efficiently.

We consider that this modification increases the flexibility on Elexon to provide the PrA service and with it an opportunity for delivering efficiencies. We consider that the oversight and approval of the BSC Panel as part of the process should provide an appropriate and adequate check. We agree that the modification better meets Relevant Objective (d).

It should also be noted that this decision relates only to the PrA service. Given the particular circumstances associated with this modification, this decision should not be considered to set a precedent for other services that may currently be undertaken by BSC Agents.

Business case for PrA service

While largely out of scope of the decision on P255 itself, we note Elexon have, in parallel with the development of P255, developed a business case to take on the Profile Administration service and have presented this to the Panel for approval. We note the concerns raised by some of the panel members about the way in which the business case was progressed. Notwithstanding these concerns, we note that the Panel did agree at its meeting of 21 May 2010 to allow Elexon to take on the Profile Administration Service

through procuring the Data Collection aspects and delivering the Data Analysis aspects in house, subject to this decision on P255.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that P255: 'Profile administrator: creating flexibility in discharging the service' be made.

Mark Cox

Associate Partner, Transmission and Governance

Signed on behalf of the Authority and authorised for that purpose.