

BY EMAIL



11 February 2011

Martin Shaw
Environmental Taxes Team
HM Revenue and Customs
3rd Floor West
Ralli Quays
3 Stanley Street
Salford
M60 9LA

Dear Mr Shaw,

ELEXON's response to the consultation on a carbon price floor

This is ELEXON Limited's response to the Government's consultation on "Carbon price floor: support and certainty for low-carbon investment".

What is ELEXON's interest in the electricity market?

ELEXON delivers the centrally-mandated electricity settlement services that are critical to the successful operation of Great Britain's electricity trading arrangements under the Balancing and Settlement Code (BSC). We manage processes and systems from electricity meter to bank, handling over £500 million of our customers' funds each year and interacting with over 200 companies in the electricity industry. As part of this we administer the settlement of the Balancing Mechanism and the determination of electricity imbalance prices for generators and suppliers in respect of each half hour of each day.

Impact on existing trading arrangements for electricity

One of the questions in the consultation (Question 4.D2) asks what impact the proposals for a carbon price floor might have on trading arrangements for electricity. As far as the BSC settlement arrangements are concerned, we have not identified any direct impact that would require a change to these arrangements. We understand that the intended effect of the carbon price floor is to incentivise new build in low carbon generation and to incentivise operational switching to less carbon intensive forms of generation. The BSC arrangements do not need to change to enable the entry of new generators into the settlement arrangements; this is a normal and routine process for us. And the BSC arrangements do not need to change as a result of a change in the merit order (relative pricing) of generation that would be the result of a carbon price floor. Our arrangements would just pick up any price changes in the balancing actions.

However, we recognise that the Government has concerns about the suitability of the wider existing trading arrangements in a low carbon generation environment with high capital cost/low operational cost generation. We will be responding to the DECC Electricity Market Reform consultation on the proposals made there.

How ELEXON can help with monitoring the effect of the carbon price floor

In its role as the BSC administrator, ELEXON holds data in the BSC Central Systems on actual generation. So we can assist with the monitoring of the effect of a carbon price floor and in any post-implementation review. We also hold data on the operation of the Balancing Mechanism so can assist with monitoring any effect on price switching between fuels.

Please do not hesitate to contact me if you wish to discuss any aspect of this letter or the current BSC electricity settlement arrangements. I can be contacted on 020 7380 4253 or steve.wilkin@elexon.co.uk.

Yours sincerely

Steve Wilkin

Market Advisor