

<b>Modification Proposal – BSCP40/03</b>	MP No: P290
<b>Title of Modification Proposal:</b> Enabling ELEXON to participate in roles in support of the Smart Energy Code (SEC) Panel.	
<b>Submission Date:</b> 3 January 2013	
<b>Description of Proposed Modification:</b> <p>This proposal seeks to enable ELEXON to undertake roles that support the Smart Energy Code Panel, in particular for the SEC Administrator and SEC Secretariat roles for which DECC has indicated it will run an award process in the near future.</p> <p>The BSC shall be amended such that the ELEXON Board is permitted (subject to meeting Ofgem’s four expansion conditions) to undertake activities outside of the BSC, specifically the SEC Administration and Secretariat role.</p> <p>The key features of this proposal are outlined below:</p> <ul style="list-style-type: none"> <li>• The BSC shall be amended to allow ELEXON to pursue and undertake opportunities that support the SEC Panel;</li> <li>• If ELEXON is awarded any roles in support of the SEC Panel, ELEXON will use revenues from delivering such new services to offset ELEXON costs for the benefit of BSC Parties; and</li> <li>• If ELEXON is awarded any roles in support of the SEC Panel, such activities will make a fair and reasonable contribution for use of any common or shared infrastructure and such contributions will be used to offset existing BSCCo costs for the benefit of BSC Parties.</li> </ul> <p><i>Funding of SEC support tenders</i></p> <ul style="list-style-type: none"> <li>• Subject to the following conditions, ELEXON will be allowed to incur costs, expenses and other outgoings in connection with the planning, preparation and negotiation of a contract relating to the award of roles supporting the SEC (“SEC Tender Costs”). Costs will be treated as ELEXON costs and drawn from Parties in accordance with existing BSC cost recovery. The conditions are:           <ol style="list-style-type: none"> <li>(i) Third party costs incurred in connection with the Tender exercise (e.g. professional advisor costs) will be limited to £50,000<sup>1</sup>;</li> <li>(ii) Overheads (e.g. personnel costs) incurred in connection with the Tender exercise will be met by BSCCo;</li> <li>(iii) SEC Tender Costs must be at arm’s length and on normal commercial terms<sup>2</sup>;</li> <li>(iv) SEC Tender Costs will be subject to ELEXON’s statutory audit;</li> <li>(v) If ELEXON is unsuccessful in tendering for roles in support of the SEC, the BSCCo Board will write off the SEC Tender Costs in respect of that unsuccessful bid; and</li> <li>(vi) ELEXON will provide reports to the BSCCo Board at regular intervals on Tender Costs</li> </ol> </li> </ul>	

<sup>1</sup> There is sufficient underspend in the 2012/2013 Annual Budget to cover potential Tender Costs.

<sup>2</sup> This provision reflects, in part, Standard Condition B9 of NGET’s transmission licence.

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<p>(excluding confidential and/or commercially sensitive information).</p> <ul style="list-style-type: none"> <li>If ELEXON is awarded any role in support of the SEC, the BSCCo Board will agree procedures to ensure that any common or shared costs are allocated fairly and reasonably between BSC and SEC users.</li> </ul> <p><u>Continuity of BSC services</u></p> <ul style="list-style-type: none"> <li>ELEXON will have an obligation to ensure that at all times it has sufficient resources (including personnel) to fully discharge its BSC responsibilities.</li> </ul> <p><u>Need to progress the Modification to an expedited timetable</u></p> <p>We believe this Modification needs to be progressed to an expedited timetable. We note that the roles required to support the SEC will need to be in place around the middle of 2013 (to align with the DCC award and to support the commencement of DCC services). The process of award for these roles is likely to take several months and may commence as early as the end of January 2013. We note that Ofgem has made similar observations with regards to needing to make a decision in early January to allow another central body to participate in the award process for smart roles, including those in support of the SEC Panel<sup>3</sup>.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address:</b></p> <p>The current BSC drafting means effectively that ELEXON Ltd may not partake in the tender process for any roles that support the SEC Panel. We believe this prevents ELEXON from offering the service and leveraging its skills and expertise for the wider benefit of the industry. We are not explicitly advocating ELEXON as the SEC Panel support body, rather suggesting that ELEXON's exclusion from the award process would be detrimental to SEC Parties (which include all domestic suppliers and Distributors) by precluding the evaluation of a credible delivery model and precludes the possible saving for BSC Parties through defrayed costs.</p> <p>ELEXON currently provides Code Administration services for the BSC; the types of services provided are parallel to those services required to support the SEC. It is important for industry that ELEXON has the opportunity to compete for the provision of the SEC support services, leverage its skills and services in delivering the SEC and utilise the shared infrastructure and experience.</p>	
<p><b>Impact on Code:</b></p> <p>Amendments to 'Section C: BSCCo and its Subsidiaries' and Section X 'Definitions and Interpretation'</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code:</b></p> <p><i>None identified</i></p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties:</b></p> <p><i>None identified</i></p>	

<sup>3</sup> <http://www.ofgem.gov.uk/Licensing/Work/Documents1/Electralink%20consultation.pdf>

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<p><b>Impact on other Configurable Items:</b> <i>None identified</i></p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives:</b></p> <p>We recognise the similarities between the roles and responsibilities required to support the SEC and those already provided by ELEXON as the BSC Code Administrator. We believe it is appropriate for ELEXON to be able to participate in the award process and that this will enhance any competition. We note that Ofgem are consulting separately on the potential for another existing central body to participate in smart opportunities, including roles in support of the SEC Panel.</p> <p>This Modification provides the means of allowing ELEXON to undertake roles in support of the SEC Panel, to leverage its skills and services in delivering the SEC and utilise the shared infrastructure and experience, should it be appointed.</p> <p>It is our view that ELEXON's participation in any award process for roles that support the SEC will ensure that this process has the maximum competitive tension arising from an appropriate number of bidders. Even if ELEXON is ultimately unsuccessful, it is our view that its participation will have depressed tender prices and improved the offers of competing bidders, all to the benefit of Government, electricity and gas suppliers and ultimately the consumer.</p> <p>We note that the BSC was amended to allow ELEXON to provide Warm Home Reconciliation Services and the opportunity to utilise existing ELEXON systems, personnel and processes is similar here. However, it should be noted that the change for Warm Homes increased the scope of the BSC whereas the SEC Modification does not increase the scope of the BSC, but merely enables ELEXON to undertake SEC Panel support roles in addition to the BSC Code administrator role.</p> <p><b><u>Applicable BSC Objectives</u></b></p> <p><i><u>(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements</u></i></p> <ul style="list-style-type: none"> <li>• We partly interpret this objective more widely to refer to the efficiencies to be benefited by BSC Parties. ELEXON's participation in any bid process for services in support of the SEC will result in a better more robust service due to both the competitive pressure its participation in the bid would add to the process (irrespective of whether it is awarded any role) and the benefit its expertise would have if it were to be awarded any role. This assertion is based on the knowledge and experience that ELEXON has in running similar services to the SEC. Since the SEC will be vital to the success of the new Smart arrangements it is extremely important that the services that support the SEC be delivered efficiently, effectively and to the highest quality as possible. However, the main reason that this objective is met is that BSC Parties and ELEXON clearly have an interest in ensuring that the processes and arrangements that support the new smart arrangements (through which Settlement data will be provided) be maintained to the highest standard and that Settlement be safeguarded. Therefore this Modification would promote efficiency in the implementation and administration of the Settlement arrangements</li> </ul>	

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<p>by ensuring that the SEC is delivered to the best quality and Settlement protected.</p> <ul style="list-style-type: none"> <li>• If ELEXON were to win the roles for services that support the SEC, BSC Parties' costs would be defrayed. In addition, any revenue provided to ELEXON from this work would help offset the costs of running the BSC and ultimately increasing the efficiency in the administration of the Settlement arrangements.</li> </ul> <p><b><u>Ofgem's Expansion Criteria</u></b></p> <p>We believe that this Modification Proposal meets the expansion criteria as set by Ofgem as detailed below:</p> <p><b><u>1. BSC Parties should benefit from any diversification</u></b></p> <p>Benefits specific to BSC Parties:</p> <ul style="list-style-type: none"> <li>• Opportunity to defray BSC fixed overheads - In the BSCCo Business Plan 2011/12 ELEXON estimated that if it undertook new central smart metering roles alongside the BSC role, BSC Parties would benefit from an annual reduction in BSCCo costs arising from recharging a proportion of BSC fixed costs;</li> <li>• Revenue paid for delivering the SEC service will be remitted to ELEXON and used to further offset BSC Parties' costs;</li> <li>• Mitigates the adverse impact on Settlement that a failure of the SEC processes would have through disrupting the flow of metered data. ELEXON, through its BSCCo role, has a desire to ensure that the SEC arrangements function efficiently and effectively.</li> </ul> <p>Wider benefits to the marketplace:</p> <ul style="list-style-type: none"> <li>• Creating a new competitor/consolidator amongst the small field of players capable of delivering central market arrangements. The participation of the new entrant in competitive processes will deliver benefits to the market, even if that new entrant is not ultimately awarded the role;</li> <li>• The ability to diversify will foster innovation and creativity in the delivery of all services and this will benefit both BSC Parties and the wider market place.</li> </ul> <p><b><u>2. The arrangements should not place disproportionate risk on BSC Parties</u></b></p> <ul style="list-style-type: none"> <li>• The SEC roles are low risk activities, of limited financial value when compared to other smart opportunities;</li> <li>• The SEC roles directly reflect the types of services currently provided by ELEXON and that ELEXON has provided for over ten years. There is significant benefit in having an experienced Code Administrator to oversee new Code arrangements.</li> </ul> <p><b><u>3. Standards of service under the BSC should be maintained</u></b></p> <ul style="list-style-type: none"> <li>• The BSC already includes clearly defined services and BSC Agent contracts require them to meet a range of comprehensive service levels. Furthermore, service credits are invoked for</li> </ul>	

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<p>non-performance;</p> <ul style="list-style-type: none"> <li>• An expanded ELEXON should improve staff retention and morale, ensuring expertise is available to industry for longer thus ensuring there is no degradation in service standards due to a failure to retain key staff;</li> <li>• Existing governance provides mechanisms to ensure that service standards are maintained;</li> <li>• Continued delivery of the core BSC service to BSC requirements and Parties' expectations is the bedrock upon which ELEXON's reputation is built. It would not therefore be in ELEXON's interests to jeopardise the continued delivery of the core BSC service.</li> </ul> <p><b><u>4. ELEXON's BSC role should not give it any undue competitive advantage in a contestable activity</u></b></p> <ul style="list-style-type: none"> <li>• ELEXON's BSC role gives it no more advantage than any other central body which provides Code Administration services.</li> </ul>	
<p><b>Is there a likely material environmental impact?</b> No</p>	
<p><b>Urgency Recommended:</b> No. However we believe the Modification should be progressed to an expedited timetable as DECC are likely to commence an award process by the end of January 2013. Whilst we recognise that this time related event may meet Ofgem's criteria for urgency, the absence of definitive dates and the ability to expedite this Modification means we are not requesting urgency.</p>	
<p><b>Justification for Urgency Recommendation:</b> N/A</p>	
<p><b>Self-Governance Recommended:</b> No</p>	
<p><b>Justification for Self-Governance Recommendation:</b> N/A</p>	
<p><b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b> Yes. This Modification does not relate to any on-going SCR.</p>	
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<p><b>Details of Proposer's Representative:</b></p>	

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<b>Attachments:</b> No	