

By e-mail to: Box.ELSP@nationalgrid.com

6 October 2017

Development and implementation of GB code changes resulting from legal separation of the Electricity System Operator (ESO) within the National Grid Group - ELEXON comments

We welcome the opportunity to comment on your draft thinking for the approach to amending GB Codes as part of the legal separation of the ESO. Our response relates to the Balancing and Settlement Code (BSC), which ELEXON manages. We have reflected comments we have shared bilaterally with your colleagues at National Grid. Our comments do not reflect any immediate observations from the BSC Panel as their next meeting falls after the closing date for responses. However we will provide any additional feedback from discussions at the October Panel and you have also indicated that you would present on your proposals at the November Panel meeting.

Question 1: Have we captured all the codes which are required for modification to reflect a legally separate NGESO within the National Grid group? If not, what other codes do we need to consider?

Yes

We have not identified any additional codes that we believe to be impacted.

Question 2: Are the proposed modification principles appropriate for each code? If not, please provide your view.

Yes we believe the modification principles set out for the BSC in Appendix 2 of your open letter are appropriate. We have previously shared our thinking on the use of the novation process, the role of the BSC Panel and the timing of changes as follows:

Novation (under BSC Section A 2.7 and would need to follow this procedure):

- NGET would need to complete the relevant Novation Application Form and provide it together with the Novation Agreement, duly signed by both NGET and NGESO relating to the transfer of rights and obligations under the Accession Agreement
- NGET would need to pay the Novation Fee set by the BSC Panel
- ELEXON would notify the BSC Panel, BSC Parties and the Authority of the planned Novation
- The BSC Panel would determine whether to grant or reject the Novation (i.e. it is subject to BSC Panel approval)
- When granted, the Novation Applicant (NGESO) shall be admitted as Party to the Framework Agreement
- ELEXON will notify the BSC Panel, Parties, Authority of the new Party
- The BSC Party ID will be transferred
- From the Novation Date NGET would be automatically released from all its rights, obligations and liabilities under the BSC and the Framework Agreement, A 5.3.2

The Novation Date will have to be brought in line with the completion date for the ELEXON share transfer from NGET to NGESO and the effective date of the new Licence.

Any Modification to the BSC will need to update the definition of 'Transmission Company' in Section X of the BSC. We are still considering whether the definition of 'Transmission

Licence' might need to change. All changes are expected to be made in parallel with the novation and Transmission Licence "effective from" date.

Novation would provide a clean cut between the two entities and a transfer of all obligations under the BSC currently imposed on NGET. The fact that only certain conditions of the Transmission Licence will be transferred to NGESO and others remain with NGET should not have an impact on the provisions in the BSC given that all of Condition C3 of the Transmission Licence will be transferred and we understand from National Grid that there are to be no draft amendments to C3.

We are currently considering whether there are any other consequential changes required to the BSC that would require modification and will discuss with your team.

Additional observation on potential housekeeping changes

ELEXON has highlighted in our discussion with National Grid that there would appear to be an opportunity for some housekeeping and efficiency changes that could be made in parallel with the other proposed changes.

For example there are references to the transitional arrangements required for the BETTA changes that occurred in 2005 that remain in the BSC but are no longer relevant. In addition much of condition C3 of the Transmission Licence refers to the processes for Modification to the BSC which are largely replicated in Section F of the BSC.

We understand that the intention is to give effect to the changes with as little changes to the industry codes and licences as possible, but we would encourage Ofgem and National Grid to consider this as an ideal opportunity to remove inefficiencies, where possible.

Question 3: Would you support an approach that included cross code coordination to progress changes efficiently where modifications impact multiple codes?

Yes, we would expect the suite of changes to be progressed in accordance with a shared plan and approach that all code panels and code managers have agreed and signed onto.

ELEXON has worked with National Grid on cross code changes and we would expect a similar process to be used. For example ELEXON currently manages a cross code change plan for the implementation of European Network Code changes mainly with National Grid and we manage the preparation of drafting changes and the change process (with the exception of the raising of BSC Modifications, which ELEXON is prohibited from doing). This includes the use of joint working groups where relevant. Therefore we would expect to work with your team and others on developing the changes and progressing these in accordance with a plan that is clear to all stakeholders.

Question 4: How would you like to be engaged throughout the process?

ELEXON has agreed with National Grid to work closely with your project and legal teams to develop and progress the necessary changes to the BSC. In addition we have agreed that ELEXON would work together with National Grid to keep the BSC Panel briefed on their role and keeping BSC Parties and common stakeholders informed through our communication channels.

Question 5: Do you have any concerns about legal separation in general? If so, please provide contact details of the person within your organisation that we should contact in relation to these matters.

No

If you would like to discuss any areas of our response, please contact Douglas Alexander, on 020 7380 4218, or by e-mail at douglas.alexander@elexon.co.uk.

Yours sincerely,

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Cc: Jackie Mesnard, Angela Quinn, Jonathan Munsey (by email)