

By e-mail to: electricitySOreform@ofgem.gov.uk

Steven Becker / Shashi van de Graaff
SO Regulation Team
Ofgem
9 Millbank
London SW1P 3GE

26 January 2018

Dear Steven, Shashi,

Future arrangements for the Electricity System Operator: Informal Consultation on ESO Licence Drafting – ELEXON Response

We welcome the opportunity to comment on the 15 questions posed in the above consultation document relating to the separation of National Grid's electricity transmission licence into Transmission Owner and Systems Operator functions.

As you are aware, ELEXON (as 'BSCCO') is the Code Administrator for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC. This includes responsibility for the delivery of balancing and imbalance settlement.

The views expressed in this response are those of ELEXON Ltd alone, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss any aspects of our response, please don't hesitate to contact me at douglas.alexander@elexon.co.uk.

Yours sincerely,

Douglas Alexander
Change Manager

'FUTURE ARRANGEMENTS FOR THE ELECTRICITY SYSTEM OPERATOR: INFORMAL CONSULTATION ON ESO LICENCE DRAFTING – ELEXON RESPONSE'

Below are the ELEXON responses to your specific Questions, omitting those Questions on which we have not expressed a view.

Q1: Do you agree that the licence changes we are proposing are sufficient for ensuring effective separation between the ESO and all other National Grid Group transmission and competitive businesses?

We agree with the proposals for how separation will be achieved through the separate licences, obligations and novation of contracts.

We agree with proposed changes to the Standard Licence Conditions recognising the role of NGET and ESO in:-

- Part I : Terms of the Licence
- Part II: The Standard Conditions
- Section A: Interpretation, Application and Payments
- Section B: General
- Section C: System Operator Standard Conditions

We however seek confirmation that ownership of the BSC will be transferred to NGESO from NGET.

Q2: Do you agree with the Guiding Principles that we have set out? Are there any further principles that we should consider?

We agree with the four Guiding Principles under consideration:-

1. No re-opening of RIIO-T1
2. Minimal change for separation
3. Alignment with Scottish TOs
4. No housekeeping

However we would not wish this to be a distraction from the five regulatory stances:

1. Promoting effective competition to deliver for consumers
2. Driving value in monopoly activities through competition and incentive regulation
3. Supporting innovation in technologies, systems and business models
4. Managing risk for efficient and sustainable energy
5. Protecting the interests of consumers in vulnerable situations

Q3: Do you think that our proposals for Independent Directors will provide sufficient separation?

We agree that the composition of the Board should provide an effective balance of National Grid and Sufficiently Independent Director (SID) members. The proposal is to have at least three Sufficiently

Independent Directors and no more than four National Grid Executive members to provide a good balance.

The governance arrangements around Board quoracy needs to be agreed. This is important in order to ensure that Board decisions are not influenced by the interests of a specific group.

However the most efficient way to ensure the Board acts in an independent manner would be to place clear responsibilities on the Board (and powers to address any breach of Director responsibilities proportionate to the breach) by reflecting these responsibilities in the ESO licence.

Ofgem may wish to consider whether SO stakeholders could have powers to request removal of any Board director akin to the powers of BSC stakeholders in the BSC to remove ELEXON directors (implemented under BSC Modification P324).

We agree that imposing restrictions on ESO Board members not being permitted to sit on the National Grid Group plc board or the boards of other National Grid Group plc electricity subsidiary companies provides sufficient separation.

Q4: Do you think that the ESO should have a licence condition which restricts the activities it can undertake? If so, what activities should be restricted?

Yes. By including such restrictions brings focus to the primary role of the ESO to provide a service to its stakeholders. However we believe that restricting the ESO to operating only in the Great Britain electricity market should also be included.

ELEXON provides BMRS as the go to electricity platform. We support a restriction on National Grid developing such a platform that would only serve to confuse the market.

Q5: Do you think that allowing NGET to acquire OFTO business is beyond the scope of the separation project and therefore should not be considered at this stage?

We agree with your proposal to keep Special Condition 2C in both the TO and SO licence. This condition prevents NGET and the ESO from holding an OFTO licence, and ensures NGET and the ESO continue to conduct their transmission business in the manner best calculated to meet their own licence obligations.

For NGET to take any other action would go against one of the Guiding Principles of minimal change.

Q6: Do you think that a modified version of Special Conditions 2B and 2H are necessary for NGET?

By way of having a consistent set of conditions across Great Britain and to preserve confidentiality we would support including the modified version of Special Condition 2B as described in paragraphs 2.15 to 2.18 for NGET.

From the consultation document, Special Condition 2H introduces the requirement to have a Compliance Officer. We would not agree with the appointment of a specific compliance officer within the ESO licence. We would see this activity as being part of a wider role within NGET.

Q7: Do you think that Special Condition 2C should apply to NGET in its current form?

Yes. See our response to question 5 and to keep Special Condition C in its current form.

Q8: Do you think that allowing NGET to acquire OFTO business is beyond the scope of the separation project?

Yes. See our response to Q5.

Q9: Do you think Special Condition 2I should apply to NGET and/or the ESO?

The governance proposal is to have three Sufficiently Independent Directors and no more than four National Grid Executive members who will all be directors of the ESO Board. We believe having the ESO managing director required to be independent from the TSO is of benefit to maintain separation of TSO and ESO. We do not see the need for the TSO MD to be required to be independent from the ESO.

Q10: Do you think an amended version of Special Condition 20, as described in this document, will provide sufficient safeguards regarding the separation of the ESO from other National Grid Group plc companies?

Yes we agree that an amended version of Special Condition 20 will provide sufficient safeguards and therefore should be included in the ESO licence. As an example such safeguards would cover the interface between the ESO and the gas System Operator, to ensure that the sharing of information between the two entities takes place in specific circumstances and is subject to controls.

Q11: Do you think an amended version of Special Condition 20 for NGET is required for business separation requirements and compliance obligations?

We agree that an amended version of Special Condition 20, including Special Condition 2B, is required in order to provide sufficient safeguards regarding the separation of the TO Business and the treatment of information within it.

Q12: Do you think that Special Condition 3D should be included in NGET's licence only?

It is not clear what the contribution from the Stakeholder Satisfaction Output (SSOt) term would be used for. We understand, in the case of the TO, that replacement of business assets would be for the benefit of customers and we would support inclusion in such circumstances.

Q13: Do you agree with our proposal to keep Special Condition 3F in NGET licence only? This includes updating the EDR guidance so that the reward is calculated solely on TO activities.

We agree with the proposal to keep Special Condition 3F in the NGET licence only. We support provisions for arrangements relating to administration, governance and revision of the Environmental Discretionary Reward scheme to focus on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy.

Q14: Do you agree with our proposal for amending Special Condition 3H (Network Innovation Allowance), to assign 0.5% of NGET revenue to the NGET licence and the remaining 0.2% of NGET revenue to the NGESO licence?

The current arrangements allocate 0.7% of NGET base revenue to Network Innovation Allowance. The proposed split of 0.5% to the TO and 0.2% to the SO, maintaining the current levels of spend on NIA projects seems a sensible approach. However the basis of this reallocation is not clear.

This appears to be a fund that ESO already has and can use for small innovations. It may therefore be reasonable to include the use of NIA in the ESO incentives scheme – better use of the NIA for consumers' benefit should be rewarded, particularly since consumers fund 90% of the NIA usage according to the consultation.

Q15: Do you think both the NGESO and NGET should participate in the Network Innovation Competition going forward? How should the licence drafting of Special Condition 3I be amended to effect this?

To be consistent amongst Transmission Operators it would be logical to amend NGET's licence to reflect the drafting of Special Condition 3I used in the Scottish TO licences.

There is also the question of whether it is appropriate to allow a non-TO access to NIC funding at all when organisations like ELEXON are excluded.

END.