

Assessment Procedure Consultation Responses

P330 'Allowing ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role'

This Assessment Procedure Consultation was issued on 19 February 2016, with responses invited by 11 March 2016.



Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

| Respondent | No. of Parties/Non-Parties Represented | Role(s) Represented |
|-----------------------|--|--|
| First Utility | 1/0 | Supplier |
| ScottishPower | 3/0 | Generator, Supplier, Non Physical Trader |
| Drax Power Limited | 1/0 | Generator |
| E.ON Energy Solutions | 1/0 | Supplier |
| RWE npower | 1/1 | Supplier, Supplier Agent |
| British Gas | 1/0 | Supplier |
| Gemserv Ltd | 0/1 | Code Administrator |
| SSE | 6/0 | Generator, Supplier, Non Physical Trader |

Appendix 1: Energy UK Response

P330
Assessment Consultation
Responses

16 March 2016

Version 2.0

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Question 1: Do you agree with the Workgroup's initial unanimous view that P330 does better facilitate the Applicable BSC Objectives than the current baseline?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 5 | 3 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---------------|----------|---|
| First Utility | Yes | We agree with the justification for P330 as covered on page 3 of the modification Proposal – BSCP40/03 which relates to BSC Objective (d) on promoting efficiency in the implementation and administration of the balancing and settlement arrangements. However in regards a 'unanimous view', it must be noted that not only was it challenging to get enough BSC parties to join the working group, of those that did, not all were able to attend the Workgroup Meeting prior to the Consultation being published. The cost associated with setting up and running these workgroups for such modifications must also be included in the overall cost of considering the proposals. If Elexon are to consider other tenders in future, then it may be worth seeking a more economically efficient way at lower cost to BSC parties when deciding how to finance and whether to make a submission. However, agreement in this specific context should not be taken as an indication that we would also agree to other proposed changes to Elexon's remit. |
| ScottishPower | Yes | ScottishPower believes that P330 facilitates Relevant Objective (d). If Elexon are successful in winning the PAFA work, then any margin made on the service will be able to be used to defray the costs of the electricity settlement to BSC Parties. Furthermore ScottishPower believes that as the market is moving to dual fuel arrangements, for example through the proposed centralisation of registration, that this would be the first industry driven initiative to bring processes under one entity. ScottishPower see this as allowing for a common understanding to be developed between the gas and electricity market and practices and synergies to be delivered, which could achieve cost efficiencies and customer benefits. With Elexon operating the gas market arrangements it would also allow for best practice to |

| Respondent | Response | Rationale |
|-----------------------|----------|--|
| | | <p>be identified and established and potentially improve the electricity arrangements.</p> <p>By allowing Elexon to bid for the gas PAFA work it will also, for the first time, present an opportunity to market test Elexon to understand if they offer value for money in the electricity arrangements.</p> |
| Drax Power Limited | No | <p>Drax does not believe that a valid defect in the BSC has been identified by the P330 Proposer and it therefore does not provide a benefit against the baseline. Elexon was created to manage the BSC and a move away from these core activities is not in its current remit. There is a risk that the quality in delivery of core BSC activities may drop if Elexon resource is used to work on a bid for the Gas PAFA role without procuring additional expertise, which would come at a cost to BSC parties. Further, if Elexon were to be granted the UNC Gas PAFA role, resources may be used preferentially to support the PAFA responsibilities ahead of core BSC activities, detrimentally affecting BSC parties. As such, P330 could result in scenarios that detrimentally effect the Applicable BSC Objective (ABO) (d).</p> <p>The P330 Proposer has stated that sharing the fixed costs of Elexon across the Gas PAFA service allows costs to BSC parties to be defrayed. However, the Assessment Procedure Consultation document does not provide sufficient analysis to prove that this would be the case. Further, the simplicity of the gas market arrangements when compared to the electricity market arrangements have been cited as an opportunity for Elexon, if granted the UNC Gas PAFA role, to identify and implement changes to better the electricity arrangements in the future. However, the argument industry has put forward to date is that the gas market is too simplified and needs a more robust set of arrangements to be put in place. In addition, the Proposer asserted that in bidding for the Gas PAFA work, BSC parties may get an insight into the competitiveness and efficiencies of Elexon in delivering their existing obligations. Currently, there is a yearly audit process which means that any inefficiencies should be addressed. As a result, the benefits of P330 in this regard are unlikely to be material.</p> |
| E.ON Energy Solutions | Yes | <p>Through the tender process Elexon will have sight of proposals and suggested Performance Assurance techniques that it may consider appropriate to apply to existing electricity arrangements. These could be</p> |

| Respondent | Response | Rationale |
|-------------|----------|--|
| | | <p>considered for future reference even if Elexon were ultimately unsuccessful in its bid for the gas Performance Assurance framework, facilitating potential further efficiencies in core electricity BSC processes and techniques.</p> <p>Additionally, a successful bid is a potential step towards a dual fuel Performance Assurance framework, from which further synergies and efficiency savings may be of benefit to all Parties.</p> |
| RWE npower | Yes | We agree with the workgroups view that P330 better facilitates objective D within the current baseline. Bidding for the Gas PAFA has the potential to highlight areas where ELEXON can more efficiently deliver their existing obligations. |
| British Gas | Yes | <p>We believe applicable objective 'D' will be better facilitated. We believe that allowing Elexon to tender for the Gas PAFA role will allow Elexon to become more efficient in providing 2 PAFs if they were successful in bidding.</p> <p>This is only the case if Elexon are able to maintain their current core functions. If the Electricity arrangements are adversely impacted then we believe that this modification will have negative effect on the current baseline.</p> |
| Gemserv Ltd | No | <p>Gemserv fully supports the principle of introducing effective competition, including where knowledge and experience from one sector can be leveraged in another to help drive better outcomes and efficiencies. We note that the Working Group consider the BSC Objectives are better facilitated by P330. However, the Objectives were framed purely for the purpose of the BSC, and whilst we acknowledge that ELEXON's credentials as a potential PAFA service provider are credible, the Objectives do not yet support P330. Even with regard to the efficient, economic and coordinated operation of the National Transmission System, the term</p> <p>'Transmission' does not stretch to gas noting that with respect to the BSC, the Transmission Licence is very clear on this matter, i.e. it draws its interpretation from the Transmission Licence and the Electricity Act 1989. Further to the above, whilst we note that departures from core BSC services have been permitted in the past for ELEXON, these instances have required regulatory and legislative intervention. In these previous cases, it was viewed</p> |

| Respondent | Response | Rationale |
|------------|----------|--|
| | | <p>that there were restrictions on others from performing the services, hence the need for ELEXON. However, bids for PAFA do not face any such restriction and therefore, competitive bids are likely to take place without ELEXON participation.</p> <p>Consequently, should P330 be successful we are concerned that this could lead to a dampening down of alternative competitive participation in the procurement process - an important consideration for the Panel. ELEXON administers the BSC for Great Britain. In this role it is the Balancing and Settlement Code administrator ('BSCCo') established by the BSC. The existence of the BSC and BSCCo (as Code Administrator) are the product of a licence requirement on</p> <p>National Grid Electricity Transmission ('NGET'), which is the sole owner of ELEXON. Moreover, UNC506V would require the Gas Transporters (GTs), and that includes National Grid, to undertake a competitive procurement exercise to appoint a PAFA. The relationship of ELEXON with National Grid could bring into question the objectivity and impartiality of the procurement exercise (perceived or otherwise). There is also a question of how the tender submission will be funded given that ELEXON is a 'Not-for-Profit' organisation. This suggests that financing of ELEXON's tender submission will be effectively supported by BSC Parties. Other organisations, have different business models (i.e. competitive sector) who will have to bear any such costs, including the cost of any unsuccessful bid, against their bottom line. Investing in a major procurement exercise, is not an insignificant matter, and competing companies may well decide not to participate.</p> <p>It is possible that both the ownership and funding issues will act as a disincentive for others to participate within the procurement process, i.e. reducing the ability of the procurement panel to secure and therefore, compare the widest possible range of competing offers.</p> <p>We note that ELEXON do not, as of yet, have the capability to tender for services outside of the BSC, nor the opportunity to expand their portfolio other than as provided in the BSC and NGET licence. ELEXON is however, undergoing a vires and structure review to consider how best to resolve this. It would be wrong to circumvent that due</p> |

| Respondent | Response | Rationale |
|------------|----------|---|
| | | <p>process by incrementally broadening ELEXON's scope on a piecemeal basis under P330. A key consideration for that review will be addressing ELEXON's ownership model and opening up its existing services to competitive pressures, so that it is free and able to engage in the competitive market on an equal footing with other competitive service providers, and without compromising its legal BSC responsibilities and duties.</p> <p>In fact, opening up ELEXON's own performance assurance function could better support its objectives under the BSC. This would seem to be a better way forward as a means to drive efficiencies within the BSC.</p> <p>We are therefore struggling to see how P330 is in the best interests of BSC Parties. It does not meet the BSC Objectives and could have unintended consequences by reducing the range of competing offers during procurement. We would be interested to understand how P330 is in the best interests of the BSC, or indeed PAFA, and whether in this case P330 is necessary or indeed prudent.</p> |
| SSE | No | <p>P330 would impose a certain cost upon BSC Parties, with an uncertain benefit. This seed financing cost may or may not be recovered (over an uncertain timeframe), depending upon whether PAFACo is successful at tender, exposing BSC Parties to the risk of unrecoverable costs in pursuit of a non-core activity. It remains difficult therefore in our view to understand how this can be argued to better facilitate objective (d), as only the increased (albeit one-off and capped) cost is certain to occur. Equally, SSE are somewhat sceptical that the additional purported benefits against objective (d) can be claimed as benefits. SSE do not believe that first-hand experience of managing Gas Assurance arrangements will result in any greater benefit to the Electricity Arrangements than should be able to be achieved through continual challenge to its own delivery model through reference and benchmark to other markets. Equally, SSE cannot see how bidding for Gas Assurance, will provide a reasonable indicator of Elexon's competitiveness in providing its existing Electricity services, given the differences in the commodities and the market structures. We would consider benchmarking through independent experts a more valuable measure of competitiveness or indeed the ultimate measure of</p> |

| Respondent | Response | Rationale |
|------------|----------|---|
| | | competitiveness would be to openly tender the Electricity Assurance functions currently operated by Elexon in order to test the market and discover an efficient price. |

Question 2: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of P330?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 6 | 2 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|--|
| First Utility | Yes | The draft legal text covers the requirements for a bid as well as addressing the areas of concern particularly around ring-fencing of activities outside the BSC: we need to ensure that there are no adverse impacts on any existing activities and service standards for meeting the responsibilities as held under the BSC, should Elexon's remit expand in this way. |
| ScottishPower | Yes | The legal text allows for a cap to be placed on the costs that Elexon are able to incur in respect of any bid that they develop in response to the gas PAFA tender process. In addition on an on-going basis it allows for reporting to the Panel of the costs incurred. The text also creates the PAFACo, which will facilitate the loan arrangement between BSCCo and PAFACo, allowing monies to be repaid to BSC Parties, should Elexon be successful in tendering for the PAFA role. |
| Drax Power Limited | Yes | This looks sensible, although we do not agree there is a defect. |
| E.ON Energy Solutions | Yes | Yes this provides sufficient scope to facilitate a bid. |
| RWE npower | Yes | Yes, we agree that the legal text allows for Elexon to tender for the Gas Performance Assurance Framework Administrator. |
| British Gas | Yes | None provided. |
| Gemserv Ltd | No | As explained in our response to Question 1, Gemserv believes that rather than undertaking an incremental approach to modifying the BSC arrangements a more fundamental review to ELEXON's business model is necessary, paving the way for ELEXON to compete for services on an equal footing with its competitors. In the event P330 progresses, it will be important to |

| Respondent | Response | Rationale |
|------------|----------|--|
| | | <p>ensure that the legal drafting gives prominence to a procurement approach that is consistent with best practice, such as those set out by the Chartered Institute of Procurement and Supply. Careful consideration should therefore be given to how ELEXON's ownership and it's funding approach ensure the utmost probity is applied.</p> <p>In particular, the Panel may wish to ensure that P330 does not run contrary to that best practice, i.e. a person who is connected to the development, delivery or award of qualifications on behalf of the Awarding Body, should not have interests in any other activity which could potentially conflict with the Awarding Body interests in the development, delivery or award of qualifications.</p> |
| SSE | No | <p>Para 2.2.1 – in order to avoid any possible confusion at a later date, SSE believe that numerals should be augmented by words, particularly in relation to any proposed caps. We would suggest therefore that “total aggregate sum of [£100,000.00] to enable...” should be amended to read “total aggregated sum of [one hundred thousand pounds sterling (£100,000.00) to enable...”</p> <p>Para 2.3.6 – as per the comment above, SSE would like to see the cumulative amount of the cap expressed in words in addition to numerals.</p> <p>Para 2.3.6 - the draft legal text provides the Board with the ability to write off any loan or credit to PAFACo in the event of an unsuccessful tender, plus interest at a market rate which would otherwise have been receivable. Who determines what the “market rate” should be in this circumstance? The Board, the Elexon Executive, an independent advisor? How do BSC Parties gain comfort that interest charges would be appropriate?</p> <p>SSE believes that the legal text should be more explicit in determining which benchmark would be used to establish a suitable market rate for interest.</p> |

Question 3: Do you agree with the Workgroup's recommended Implementation Date?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 1 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|--|
| First Utility | Yes | Nothing to add. |
| ScottishPower | Yes | To be able to bid for the PAFA work, it is imperative that the BSC is amended as soon as possible, following Ofgem's decision (should this be positive), to allow Elexon to be able to enter into the PAFA tender process. ScottishPower therefore agrees that the 5 Working Days is a sufficient timeframe to allow this to happen. |
| Drax Power Limited | Yes | This seems sensible, should a defect be identified. |
| E.ON Energy Solutions | Yes | None provided. |
| RWE npower | Yes | We agree with the recommended implantation date that has been proposed within the workgroup. Implementation should be carried out without delay to ensure an effective tender process for the PAFA. |
| British Gas | Yes | We believe the quick implementation following an Ofgem decision is important to allow Elexon enough time to tender for the position should the Board decide to. |
| Gemserv Ltd | No | Since we have a number of serious reservations with respect to P330, we suggest that careful consideration of the issues we have highlighted and whether, in light of those issues, an implementation date can be set; at least until those concerns are fully addressed to the satisfaction of the Panel. |
| SSE | Yes | None provided. |

Question 4: Do you have any potential Alternative Modifications within scope of P330 which would better facilitate the applicable BSC Objectives?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 1 | 7 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|---|
| First Utility | No | The current P330 modification meets the BSC objectives sufficiently. |
| ScottishPower | No | None provided. |
| Drax Power Limited | No | Not at this time. |
| E.ON Energy Solutions | No | None provided. |
| RWE npower | No | None provided. |
| British Gas | No | None provided. |
| Gemserv | Yes | <p>Yes, the right approach would be to first adjust ELEXON's vires, Objectives and ownership model. That said, a Modification is not necessary to secure diversity via a competitive tendered approach. Whilst we support the idea that ELEXON can bring experience to the PAFA role, there are other commercial organisations who are also well-placed and which do not require substantive changes to their vires.</p> <p>We would be interested to know whether exposing ELEXON's performance assurance function under the BSC may equally benefit from being opened to peer and competitive pressures, i.e. deliver efficiencies for BSC Parties.</p> |
| SSE | No | None provided. |

Question 5: Will the implementation for P330 impact your organisation?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 3 | 5 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|---|
| First Utility | No | There is no impact of this modification on our systems and processes (assuming that the tender process is carried out in such a way as to have no adverse impact on any Elexon ongoing activities). Furthermore, Elexon estimates the cost of implementation for the required document changes to be around £240 to itself. |
| ScottishPower | No | There would be no implementation impacts from this proposal for ScottishPower. |
| Drax Power Limited | Yes | Should the BSCCo Board choose to bid for the role of Gas PAFA, Drax, along with all other BSC parties, would be forced to pay for the tender with no guarantee of reimbursement or benefit. We do not believe this to be acceptable. |
| E.ON Energy Solutions | Yes | This will have a positive impact. It provides an opportunity for Elexon to expand and use its vast experience and knowledge of Performance Assurance in another area of the industry. In addition as highlighted in answer to question 1 a successful bid will provide additional opportunities such as bench marking existing performance and applying learning across fuels for the benefit of all Parties. |
| RWE npower | No | The implantation of modification P330 will not impact of organisation at this point. The modification seeks to allow Elexon to take part within the Gas PAFA tender process. |
| British Gas | No | There will not be any impact following this change. The Gas PAFA will be put out for tender regardless of if Elexon were to bid or not. |
| Gemserv Ltd | Yes | It is questionable whether the approach is consistent with a fair and equitable procurement basis – it could have unintended consequences for potentially competing organisations. It would be particularly helpful to consider whether it will drive |

| Respondent | Response | Rationale |
|------------|----------|---|
| | | <p>the appropriate competitive procurement outcome for BSC Parties.</p> <p>The areas where impacts on other organisations may arise and where concerns might manifest themselves include:</p> <ul style="list-style-type: none"> • ELEXON's ownership profile; • The funding basis for ELEXON to participate in the procurement exercise, i.e. does not share the same commercial risks; and • Restricting future competitive market pressures for assurance based services. |
| SSE | No | None provided. |

Question 6: Will your organisation incur any costs in implementing P330?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 3 | 4 | 2 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|--|
| First Utility | No | We will not incur any costs in regards the implementation of P330 (based on the assumption set out above in question 5). |
| ScottishPower | No | There would be no implementation costs for ScottishPower from the approval of this Modification proposal. |
| Drax Power Limited | Yes | Please see above. All BSC parties will find a bid for the PAFA service. |
| E.ON Energy Solutions | Yes/No | None specifically i.e. system changes etc. |
| RWE npower | No | Npower will not incur any additional costs above those stated within the proposal. |
| British Gas | No | There will be no cost in implementing P330. The only cost to our organisation will be if a bid was unsuccessful. |
| Gemserv Ltd | N/A | N/A |
| SSE | Yes | As a result of SSE's obligation to pay BSC Costs through Section D cost recovery arrangements, SSE would incur a one-off share of up to £100,000 seed financing as a worst case scenario – our actual exposure would be dependent upon our market share at the time of charging by Elexon. This may or may not be returned by Elexon, depending upon PAFACo's success, over an undetermined timescale. |

Question 7: Do you agree with the Workgroups view that capping a specific maximum value for tender costs in the P330 legal text is the best approach?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 1 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|--|
| First Utility | Yes | Capping the maximum value for tender costs is important in order to limit the financial risk exposure to BSC parties. Furthermore a maximum value will facilitate the tender submission being drawn up as efficiently as possible. |
| ScottishPower | Yes | ScottishPower is not overly concerned about the cost for Elexon to respond to the PAFA tender, given that it is expected that the costs of the gas PAFA will be below the Official Journal of the European Union (OJEU) threshold of £350k. However as Proposer ScottishPower recognised that some parties were nervous of allowing unlimited costs to be incurred in this area, as they were not familiar with the scope/scale of the gas PAFA arrangements. Therefore ScottishPower is happy with an upper limit of costs, which Elexon could spend, and that expenditure is reported to the BSC Panel to give visibility and control. |
| Drax Power Limited | Yes | This gives the industry certainty on the value that can be spent on the bidding process. However, we do not believe BSC parties should be funding the bid. |
| E.ON Energy Solutions | Yes | This seems sensible. The level of the cap seems suitable to ensure sufficient capital is available to facilitate a successful bid and should provide comfort for Parties who may be concerned that this would otherwise introduce an uncapped liability and risk. |
| RWE npower | Yes | We consider that capping tender costs is the best approach to minimising the risk of excessive cost exposure to BSC Parties. |
| British Gas | Yes | We believe the capped approach is sensible to allow parties to understand the level of risk associated |

| Respondent | Response | Rationale |
|-------------|----------|--|
| | | with Elexon tendering for the role. |
| Gemserv Ltd | No | <p>As per our response to Question 1, we have deep reservations that the solution proposed in P330 is achievable. Setting a cap for tender costs, whilst limiting the effect on BSC Parties, will still act as a possible deterrent on others that may wish to compete in the same space.</p> <p>The Panel should also reassure itself that the funding of ELEXON's bid, in the event that it is successful, it will not be at the expense of a trade-off between resources to deliver PAFA and those needed for the existing BSC services. Under its 'Not for Profit' model, P330 brings this into question, as it is unclear where the additional resources and skills will come from at this stage.</p> |
| SSE | Yes | <p>Notwithstanding our belief that this modification is difficult to justify against the existing BSC objectives, were it to be approved, then capping the liability able to be credited to PAFACo for tender construction is an essential element of the proposal to limit BSC Parties' exposure.</p> |

Question 8: Do you have any further comments on P330?

Summary

| Yes | No |
|-----|----|
| 5 | 3 |

Responses

| Respondent | Response | Comments |
|---------------|----------|--|
| First Utility | Yes | <p>Elxon's primary responsibility is to ensure delivery of core BSC activities and the standards must be maintained and continue to improve – regardless of bidding for and potentially winning a tender for the Gas PAFA role. Running the BSC is the core role of Elxon, and any fall in standards will have a negative impact on overall industry costs and will also remove support from Elxon for participation in any potential future tenders. We have some concern about the potential for removal of staff from their roles to prepare for the bid to then get resource in to ensure that the core BSC activities are delivered (as noted on page 18 of the Assessment Procedure Consultation). We understand that effort required for the bid will be around 60 to 80 man days, and so it is essential that a plan is developed to remove the operational risk impacts to BSC parties of Elxon preparing a tender, and that this be done at least cost to BSC parties. We would welcome further information on this prior to the Panel making a decision on its recommendation for P330.</p> |
| ScottishPower | Yes | <p>There was discussion within the development of P330 that there could be a dilution of Elxon's services to the electricity market through both this proposal and if Elxon were to win the work of the gas PAFA. ScottishPower believes that such considerations are a matter for the Elxon Board and that sufficient resource planning and performance reporting will identify any such issues. The Elxon Board has the ability to recommend/adopt any changes necessary to ensure that any problem does not persist or cause any impact. In addition Elxon has already clarified that it would bring in external support for the bid, so this should limit the opportunity for any impact.</p> <p>It has also been queried which defect in the BSC this proposal is trying to address. In ScottishPower'</p> |

| Respondent | Response | Comments |
|-----------------------|----------|---|
| | | s view this proposal is trying to fix the problem in the BSC, that there is no ability for Elexon to be able to tender for services outside of the existing scope. This is despite there being an opportunity for Elexon to defray BSC Parties costs and potential to unlock enhancement to the electricity performance assurance arrangements. This opportunity should, in ScottishPower view, lead to a furthering of Relevant Objective (d). ScottishPower would also like to note that the BSC Panel voted to allow the Proposal to develop, despite the “defect concern” being raised and extensively discussed at their December meeting. |
| Drax Power Limited | Yes | The workgroup report mentioned that the Warm Home Discount (WHD) and the Electricity Market Reform (EMR) are ‘non-BSC’ related activities contained within the BSC. These activities however, were directed by the Secretary of State and are related to the electricity market, in which Elexon has expert knowledge. This is not the case for the PAFA tender. |
| E.ON Energy Solutions | No | N/A |
| RWE npower | Yes | We recognise the value that P330 brings in terms of the industry potentially moving towards more streamlined dual fuel governance arrangements. We believe that enabling both Elexon and the board to tender for the role of Gas PAFA will support this and provides opportunity for the fuels to share best practice. |
| British Gas | Yes | <p>We believe it is appropriate for Elexon to bid for the Gas PAFA role. With the need for the framework to be set up relatively quickly after the bidding process we believe Elexon’s previous experience will help in setting this framework up and developing it to the level required. We believe if the bid is successful that Elexon should not necessarily complete a replica of the Electricity arrangements. Elexon could complete a lessons learned exercise and apply this to when the Gas Arrangements are being created and provide some potential guidance to the Gas PAC in their administrative role leading to a more efficient model.</p> <p>It is very important that Elexon retain the current performance levels of the core BSC activities. If they do not then we believe that applicable objective ‘D’ would be adversely affected making the BSC</p> |

| Respondent | Response | Comments |
|-------------|----------|--|
| | | arrangements less efficient. We believe that reporting on the current core functions Elexon complete could be a helpful way to monitor performance and identify if there is any detrimental impact with a view to addressing any performance issues. |
| Gemserv Ltd | No | N/A |
| SSE | No | N/A |

Energy UK response

Energy UK submitted a response to the P330 Assessment Procedure Consultation in the form of a letter to ELEXON. This response contained the following:

Energy UK is the trade association for the GB energy industry with a membership of over 80 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Introduction

Energy UK notes Ofgem's determination on Uniform Network Code (UNC) modification 506V/506A: Gas Performance Assurance Framework and Governance Arrangements, and agree that the UNC should establish a gas Performance Assurance regime. Energy UK understands the potential benefits that modification P330 may have to those BSC signatories which also operate under the UNC. Energy UK would like to stress the importance of limiting exposure to the costs that BSC parties would potentially incur if this modification were to be implemented and ELEXON Board decides to tender for the Performance Assurance Framework Administrator gas role. The cap contained within P330 is important to limit the risk incurred to BSC signatories. In addition, in principle, this modification should not set a precedent for future additional services for ELEXON, and any future expansion outside of the limitation prescribed within the BSC should be assessed on a case by case basis.

Energy UK response to P330 proposal

Energy UK supports the establishment of a gas Performance Assurance Framework (PAF) regime under the UNC. Energy UK has identified several issues in relation to the assessment of P330, particularly with respect to limiting the financial exposure for all BSC signatories. This modification caps the potential costs associated with tendering for the gas PAF role at £100,000, nonetheless, there would be additional costs for signatories. Should this modification be approved by Ofgem and the Elexon Board decides to proceed with a tender for the PAF role, signatories would expect to see a clear and transparent process established to address expectations that all additional costs are recovered and repaid as soon as practicable. Energy UK would like to highlight that costs incurred should not directly conflict with Ofgem's open letter published in 2011 which places certain conditions on ELEXON:

- *Condition 1: BSC Parties should not face higher costs as a result of any expansion of ELEXON's role.*

- *Condition 2: The arrangements should not place more risk on BSC parties*
- *Condition 3: Standard of service should be maintained*
- *Condition 4: ELEXON's BSC role should not give it any undue advantage in the DCC competition*

Energy UK acknowledge that Ofgem have since commented on the potential expansion of the role of ELEXON in its open letter dated April 2012 which note that now the conditions are that:

- *BSC parties should benefit from diversification;*
- *The arrangements should not place disproportionate risk on BSC parties;*
- *Standards of service under the BSC should be maintain; and*
- *ELEXON's BSC role should not give it any undue competitive advantage in a contestable activity.*

Ofgem have also since commented on the potential expansion of the role of ELEXON in its response to modification P284 in September 2012 that "it may still be appropriate to enable Elexon to take on roles outside the BSC, to the extent that the BSCCo Board is satisfied that this would create value and not jeopardise the core arrangements". Further to this, the Knight Report published in 2013 reviewed the BSC governance structure and came to the conclusion that the BSC should be free to outsource - Ofgem supported the recommendation made in the Knight Report that further work should be done to clarify the condition that BSC parties should benefit from any Elexon expansion, or consider that the four conditions be dropped as these are matters that the BSCCo Board should take into account. To date there has been no conclusion to this.

As acknowledged in the Assessment Procedure Consultation, there is a potential risk that the delivery of the core BSC activities may drop if ELEXON divert funds that support current functions, to be used on a speculative bid for the Gas Performance Assurance Framework Administrator role. This is particularly important given that the work plan presented at the BSC panel in December 2015 had to be rationalised due to current constraints in ELEXON.

In addition, Energy UK would like to highlight the importance of this modification as not setting a precedent for ELEXON to expand its remit, given that Elexon is a not for profit industry run body paid for by all code signatories, who may not directly benefit from certain modifications to change the remit.

Energy UK support the conditions set out by Ofgem, and at the same time understand the potential benefits that this modification has for dual fuel market participants. The industry has a growing number of dual fuel market participants and having a single code administrator running the PAF for both gas and electricity could allow for potential benefits.

Allowing ELEXON to bid for the role of administrator could increase competition within the tender process, potentially ensuring that the most robust proposal is chosen to fulfil this role.

Energy UK also recognise that should the bid be successful there is potential of defrayed costs for BSC Parties. However, should the bid be unsuccessful, the impact of sunk costs to BSC participants needs to be recognised; the cap on expenses has been defined as up

to £100,000 but at a time when there are very narrow profit margins for generators, any additional cost is significant.