

27 September 2010



Mark Cox
Industry Codes
Ofgem
9 Millbank
London
SW1P 3GE

Dear Mark,

ELEXON's response to the "Open letter consultation: Potential Significant Code Reviews"

ELEXON welcomes the opportunity to respond to Ofgem's open letter dated 12 August 2010.

The energy sector is subject to unprecedented pressure for change. If used appropriately the SCR process introduces a mechanism which will deliver reform in key strategic areas. Current arrangements, whilst capable of addressing discrete issues are not suited to addressing significant change particularly if the change touches a number of separate industry governance documents. Furthermore, current arrangements are not suited to the delivery of Government policy and European legislation. ELEXON supports the introduction of the SCR process and would welcome the opportunity to discuss with Ofgem the support and services that we can offer in the areas where we have relevant experience and expertise.

The letter seeks views on the issues that Ofgem considers should be addressed at the earliest opportunity through the SCR process and seeks views on whether each of the three areas are appropriate for the SCR process. Of the three areas that are highlighted, two are of particular interest to ELEXON and our response focuses on these areas only.

Electricity Cash-out

There is benefit in having a comprehensive review of the existing cash-out arrangements as past changes have been undertaken in a piecemeal fashion; a feature of the BSC (and other Codes) is that the change processes are driven by the views and opinions of particular BSC parties at particular points in time. On average we have progressed in the order of four (pricing related) Modification Proposals each year since the New Electricity Trading Arrangements (NETA) were introduced in 2001. A comprehensive review would facilitate wider debate and allow for proposals to dovetail with the Government's review and wider policy objectives. We anticipate this would improve confidence in the cash-out arrangements and create greater stability in their design and operation.

As you will know ELEXON is responsible for the systems and processes that calculate system prices. We have extensive experience in the development, modelling and analysis of different cash out arrangements. As you will know we are currently modelling the pre and post P217 regimes and publish this information in our monthly Trading Operations Report,

an example can be found by following this link:

http://www.elexon.co.uk/documents/bsc_panel_committees_and_groups/bsc_panel_meetings_2010_-_171_-_papers/173_02_tor_v1.0.pdf. You have previously used our cash-out modelling capabilities in order to conduct analysis for Regulatory Impact Assessments. We would welcome the opportunity to open-up discussions on how you might best utilise our expertise and modelling capability in support of your review. This will we believe secure best value for industry by utilising existing expertise and leveraging additional value from existing BSC systems.

Smart metering impact on wider industry processes

The emergence of the Smart Metering Prospectus in late July has given greater clarity to how this key national initiative is to be taken forward and shape the future arrangements. We have established a Smart Programme to ensure that our activities are co-ordinated and that we can support the programme where it is appropriate.

As the Smart Metering Implementation Programme (SMIP) takes shape and we get clarity on its scope it is important that we don't lose sight of the wider opportunities to improve and simplify industry processes such that the full benefits of smart metering are realised and that benefits are returned to the end consumer; it is a sensible approach to use the SCR process to fill this void.

ELEXON's thinking is developed in a number of areas. Firstly, we are currently leading the review of the existing profiling and settlement arrangements; this is being conducted through the Profiling and Settlement Review Group (PSRG) and Ofgem is a member of this forum. We have published a number of documents and have conducted consultation which will inform industry any future development of the Supplier Volume Allocation (SVA) arrangements. A link to the smart metering area of the ELEXON website is as follows: <http://www.elexon.co.uk/smart/default.aspx>

Secondly, working jointly with our colleagues at xoserve, we have initiated a piece of work to develop a combined gas and electricity Change of Supplier (CoS) process in a smart metering world. This work has also been shared with other colleagues in Ofgem and the SMIP and we would welcome the opportunity to share this with you and more widely with industry at the appropriate time.

We would welcome the opportunity to discuss how these existing units of work might support an SCR in this area as we are keen to ensure that we minimise overlaps and that the findings and views expressed through our work inform the SCR. As with the cash-out review, we would also encourage you to utilise ELEXON's extensive expertise in this area.

Thank you again for the opportunity for the opportunity to respond to this consultation and please don't hesitate to contact me if you need any further clarification on this response.

Once the consultation has closed and you have had the opportunity to reflect on the responses I will contact you again to discuss how we can support the SCR process.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Davies', written in a cursive style.

Peter Davies

Director of Market Transformation