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Tuesday 1 July 2008

OFGEM CODES REVIEW WILL PAVE WAY FOR NEW AND SMALL PLAYERS

- **Ofgem's industry codes review proposes a reform package to speed up delivery of major policies and reduce Ofgem's role in routine changes**
- **Review will tackle complexities in existing process for changing market rules**
- **Reform package proposals aim to strengthen competition by making it easier for small industry players to get involved and support changes**
- **Proposals include plans to open up process to change network charging rules**

Energy regulator Ofgem has proposed an overhaul of the governance of gas and electricity industry codes. The codes set the rules for industry players to participate in the market and connect to the energy networks. The proposed reforms aim to speed up the process for making changes to codes and to strengthen competition and new entry by making it easier for smaller players, such as smaller suppliers and renewable generators, to participate and propose changes.

Under current arrangements, major code changes, such as the current electricity transmission access reforms, frequently hit delays. The reasons for this often include multiple proposals being raised on an uncoordinated basis. Progress can also be hindered by the conflicting interests of different players in the market. Pro-competitive reforms can be stalled, with impacts on smaller market players.

Alistair Buchanan, Ofgem Chief Executive, said: "Existing processes for amending the codes have worked well to implement incremental change but have been severely tested in delivering major policy reforms. Ofgem's review of the market and network codes should help accelerate vital reforms so the industry can rise swiftly to challenges emerging from the need to tackle climate change and to boost competition. The review proposals aim to tackle unnecessary complexity and increase transparency to make it easier for smaller suppliers and renewable generators to participate."

Under the proposed new approach, Ofgem could initiate changes on major policy issues while in parallel, more routine changes, with low impact on customers, could be agreed by industry in a form of self-governance with little or no involvement from Ofgem. Ofgem considers that such reforms could provide important better regulation benefits.

Ofgem will consult on proposals that would allow market players to change the methodologies that networks use to set charges. At present these methodologies can only be changed by the networks owners, even though they can have significant distributional effects and impacts on where network users choose to locate infrastructure such as electricity generation facilities or major industrial plant.

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Notes to editors

1. The codes governance review launches 6 work streams:

- **Delivery of major policy reform and self governance:** Ofgem will consult on a framework under which it would manage major policy changes by initiating and leading high level policy reviews where the conclusions of the review would be legally binding. In parallel Ofgem will also consult on proposals to enable it to step out of the codes decision-making process on proposals that have low impact on customers.
 - **Role of code administrators:** Ofgem will consult on measures to improve the quality of analysis undertaken by code administrators and panels on modification reports. Ofgem will also consult on measures to improve the efficiency and accountability of code administrators.
 - **Initiatives to support smaller players:** Ofgem will explore whether requirements should be placed on code administrators and panels to consider the needs of smaller players.
 - **Addressing complexity and fragmentation:** Ofgem will convene a working group to explore simplification and convergence of code modification processes.
 - **Charging methodologies:** Ofgem will issue a consultation on a range of options that would make charging methodology change processes more accessible to market participants.
 - **Code objectives:** Ofgem will consult on amending the industry's decision-making criteria on code modifications to take into account environmental issues, building on the guidance Ofgem has issued on the treatment of carbon costs.
2. The reform programme will be progressed through a combination of consultation documents and workshop discussions. Ofgem expects the work programme to be progressed at least over the next year.
 3. Ofgem has separately released today its final **guidance on the treatment of the costs of greenhouse gas emissions under the existing code objectives**. This guidance sets out Ofgem's view that the economic costs of greenhouse gas emissions should be taken into account by code panels and industry participants when assessing modification proposals. Ofgem expects industry and panels to begin to take account of this guidance from August 2008. The need for further changes to the code objectives to cover environmental issues will be developed under the code objectives work stream of the Codes Governance review.
 4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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