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Ørsted response to Ofgem's Call for Input on Energy Codes Reform

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs, and operates offshore and onshore wind farms, solar farms and energy storage facilities, and bioenergy plants. Headquartered in Denmark, Ørsted employs close to 8,000 people including over 1,000 in the UK. Globally, Ørsted is the market leader in offshore wind. Its UK offshore wind farms generate enough clean electricity for over three million UK homes. We are signatories to the applicable electricity energy codes, including Connection Use of System Code (CUSC), Balancing and Settlement Code (BSC), and Security and Quality Standards (SQSS), to name a few.

We welcome the opportunity to respond to Ofgem's call for input to inform policy development on potential code consolidation, Code Manager licensing framework and role of the Stakeholder Advisory Forum in the new governance framework. The energy sector is undergoing rapid transformation, including geopolitical events with unprecedented impacts that could reshape the energy market and interactions of market parties. We believe there is merit in picking up the momentum in the review and reform of energy codes to ensure that it is fit for purpose, future proof and enables the delivery of net zero in a way that ensures security of supply. We support a reformed governance framework that is forward-looking, utilises industry expertise in the most effective way and ensures that codes develop in a way that benefits both market participants and energy consumers.

The way we produce and consume energy is rapidly evolving and a transformed code framework needs to reflect the increasingly diverse range of market players and business models that are being implemented to facilitate the green, smart, and flexible energy system of the future, and future innovative models.

Importantly, in light of the changing market landscape, the role of industry needs to remain at the heart of the energy code governance arrangements to ensure that the operation and management of energy codes does not hinder the delivery of net zero agenda and offers best value for consumers. This role is currently executed in a variety of ways but more notably through code panels consisting of a broad range of independent industry representatives, where they actively engage and influence the code process, manage operational matters, efficiently triage and make decisions on progression (or not) of codes that will better serve the industry, consumers and wider system. Ofgem/BEIS have decided to abolish code panels, and propose Stakeholder Advisory Forum(s) – SAFs, to represent industry, however, without the power of code

panels. There is therefore a lack of clarity on the purpose of this forum, how it will operate in practise, and how much influence and regard it will be given in the reformed codes governance. It is imperative that accountability to industry is maintained considering the commercial impacts of codes and their scope clearly legislated.

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In considering the proposals outlined in the call for input, we have structured our response around the focus areas of the consultation and presented key points that should be given due consideration in order to facilitate policy aims better, preserve the expertise and crucial role played by code signatories, enhance consumer outcomes, and deliver an efficient independent process across all energy codes.

We have provided views on questions relating to the code consolidation process, Code Manager licencing and importantly, the role of the Stakeholder Advisory Forum. For reference, questions 2,3,6,7,8,9 and 10. Please see the table below that shows where these questions are mapped to our answers:

No.	Question	Our response sections
2	What are your views on the high-level options for code consolidation we have described ('no consolidation', 'vertical' & 'horizontal')? We welcome input on the possible benefits/disbenefits of each option.	Section 2a
3	Do you agree with our initial preference to explore vertical code consolidation options and, if so, do you have any observations on the potential models set out in Cornwall Insight's April 2022 report? We welcome specific views on the following: <ul style="list-style-type: none"> • Whether the UNC and IGTUNC should be consolidated; • If/how to consolidate the electricity codes; • Whether the REC and SEC should remain separate; and/or • Whether the consolidation of any codes should be prioritised, and if so, why. 	Section 2b
6	Are there any additional areas that should be subject to licence rules?	Section 3a
7	Do you agree with our indicative prioritisation for policy development, and do you identify any specific dependencies that you think we should factor into our policy considerations?	Section 3c
8	Are there any issues that we should take into account when considering moving the current 'code owner' licence provisions to the new code manager licence (such as unintended consequences)?	Section 3b
9	What do you think the stakeholder advisory forums' key roles and/or functions should be, and what areas (other than code change) should the forum(s) potentially have a role in?	Section 1a and 1b
10	What options/issues should be considered in terms of constituting the stakeholder advisory forum(s), in terms of membership and securing appropriate representation?	Section 1c

1. Maintain an active and integral industry role for an optimal operation and delivery of energy codes.

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- a. Diminished and unclear role of industry risks inefficient code modification processes and increased appeals against decisions. With the Code Manager taking on the role of code panels, it is unclear what the intended remit and powers of SAFs would be. It is important that more clarity and further details are provided on the role of the SAFs, the legal standing of such forums, and how the Code Manager demonstrates that it has given the advice from the forums due regard. We would recommend Code Managers be obligated to coordinate with industry to deliver code changes, beyond giving due regard to industry's views.

Codes are complex by nature; they are relied on by parties and used to manage technical issues and commercial implications on parties. It is important they remain robust, pragmatic and clear in governance. Maintaining these principles effectively is achieved by the critical role of relevant industry experts in the code modification process.

- b. The abolishment of code panels risks diminishing the role and influence of industry in the code modification processes and disincentivising industry from the proactive role they play in developing codes. This change potentially underutilises a vast wealth of industry knowledge and expertise necessary in code development. The current code panels are equally instrumental in operational matters, providing a mediacy and solution-oriented role which lessens the number of matters and appeals Ofgem need be involved in. Code Managers may be unable to effectively offer these services due to their wide-ranging responsibilities and possibly limited knowledge/expertise, and we question whether Ofgem will have the capacity, resource and expertise to be involved in more of these matters. To ensure the quality and efficacy of these services are maintained, alleviating potential strain on Ofgem, Code Managers would need to work in equal measures with SAFs who already have the necessary experience and capability.
- c. Substantial industry representation is key in the establishment of Stakeholder Advisory Forums. There should be a balanced representation of code signatories covering all aspects of the energy codes and not only selective areas. There is a risk of the forums being overtaken by parties solely participating on issues that are of interest to their company. Therefore, the self-selection process akin to current working groups will not be appropriate for the SAFs. The preferred approach will be for each SAF to emulate the existing panel election process, structure and remit of the related codes, for instance, commercial code SAFs mirroring existing CUSC and BSC panels.

We support the inclusion and representation from independent parties and non-code signatories; they can potentially provide an unbiased and wider user perspective and information that will be beneficial in the codes process. It is also important that consumer representatives

continue to play a role in code developments to ensure the interests of consumers are fully considered. However, these parties more often than not have limited knowledge of the practical workings of the codes and their commercial impacts, therefore, we would caution against making them part of key decision making.

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Much of the practical expertise around the codes sit with industry and code signatories; independent code panellists are vital in ensuring this expertise remains visible and at the core of the code process. Therefore, we believe that the SAFs should have a similar arrangement and powers, with the relevant representation from various industry stakeholders.

2. Code consolidation can play a role in ensuring that the intended benefits of energy code reform are achieved effectively, if developed and implemented appropriately.

- a) A well-designed code consolidation and delivery has the potential of facilitating competition, innovation and an optimal operation of the energy codes process. However, if not properly developed, consolidation could result in even greater complexities, inefficiencies and sub-optimal codes processes and outcomes.

The minimal reform approach should be adopted in consolidating codes to prevent the emergence of these risks. We agree with Ofgem that horizontal consolidation is not preferable, and we believe it should not be pursued further – we do not see the benefit of merging gas and electricity codes, nor consolidating technical and commercial codes under specific fuels. Electricity and gas have separate fundamental concepts and trajectories, which would need to be taken into consideration if merged as one code, it would be significantly challenging aligning both fuels.

Relating to vertical alignment of the codes, while some of the codes such as CUSC and Grid Code share some common definitions, these codes are very different by nature, with the CUSC covering the highly commercial aspects of codes as opposed to the Grid Code which is largely technical. These codes if merged, would become a vast and dense document that will be very complicated for parties to manage, navigate and review, therefore should remain separate.

- b) A pragmatic approach to consolidating the codes will be a phased implementation, starting with the relatively less complex mergers such as gas codes UNC and IGTUNC. Vertical consolidation of technical electricity codes should continue to be explored, however, should not be a priority in the current consolidation reforms.

In the short term, we would recommend focussing on the simplification and digitalisation of the codes in their existing form. These two exercises are quicker alternatives to enabling the effective delivery of energy codes reform and offer a supplementary solution to navigating the complexity of the code landscape. In addition to the above measures, making efficient improvements to code processes (e.g. stopping the frequent adoption of differing code interpretations without appropriately consulting industry via the code modification process, simplifying the process for reviewing and modifying these codes, developing an overarching glossary of definitions applicable to all codes), with best practises made common, are effective quick wins that can be implemented with minimal disruption, instead of a time-consuming, resource intensive consolidation undertaking that can potentially lead to even more inefficiencies.

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3. The development of the license conditions should be robust and fitting to ensure optimal delivery of code changes.

- a. It is important to prioritise expertise, experience, independence, core regard to stakeholders and robust performance in the development of the license framework of Code Managers to ensure efficient outcomes and codes that support the delivery of a net zero energy system. Importantly, the license condition should include a provision for satisfactory engagement with industry, to provide and/or supplement expertise and knowledge of the Code Manager/s in aspects that impact all parties.
- b. Also, we suggest a high-level version of the Code Manager licence (perhaps a Licence Lite), with majority of the provisions retained within the codes instead, which allows for a more efficient code change process. The current licensing of National Grid ESO (the only code administrator with a licence) of the CUSC and Grid Codes has been identified as resulting in onerous change processes and being a blocker for implementing code changes.
- c. We acknowledge there are benefits in having an independent party that is not the Electricity/Future System Operator to manage the codes, for instance, avoidance of conflict of interest. However, it is unclear what the role of the FSO will be and its interaction with Code Managers. The ESO/FSO is ultimately responsible for operating the transmission system, thus, needs to be substantially involved in the codes process to avoid unintended consequences. In this context, transparency will be equally vital in order to reassure parties that a level-playing field is maintained, and that a common interpretation of the codes is used by the FSO – and others – at all times.

Conclusion

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We recognise there is a need to address the barriers to entry, innovations and wider network of energy participants. Code consolidation has the potential to reduce the complexity and burden on parties of navigating through many codes and identifying applicable codes. We would however recommend prioritising simplification of codes and adopting a phased approach to consolidation, starting with the least challenging code merges.

We strongly advise against the proposed code governance arrangement diminishing the highly beneficial involvement of industry in decision-making. Stakeholder Advisory Forum(s) should complement Code Managers and continue some roles of code panels who have inarguably made valuable contributions to the efficient management of the codes. The role of industry in code modifications has delivered benefits deriving from the knowledge and expertise that have been leveraged, and these benefits should not be lost. The new governance arrangements should continue to empower industry and expert voices from within industry to exert value in the delivery of code changes that directly impact them – this will have a higher possibility of delivering efficient outcomes (and fewer appeals), than change imposed on those parties.

Industry has and continues to play a key role in driving an optimal code process, and ultimately facilitating net zero. The reformed governance arrangements should preserve and encourage such industry engagement.

Yours sincerely
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