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ESO (Electricity System Operator) Response to Ofgem's Consultation on the implementation of Energy Code Reform

Dear Ms. Charlesworth

Thank you for the opportunity to respond to your consultation on the implementation of Energy Code Reform. This response is on behalf of Electricity System Operator (ESO) and is non confidential.

Who we are

As the ESO for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a vital role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the trilemma.

Our transformation to a Future System Operator (FSO) is set to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. This will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

Our key points

Last year we carried out some internal and external workshops with Ofgem. During these workshops, it was identified that whilst open governance has qualities that are important to maintain, we believe that the current approach is no longer fit for purpose.

We welcome proposals to provide the Code Manager with Strategic Direction through the SDS (Strategic Direction Statement) – although we note the key role the Authority will have in this relationship.

We would like to highlight the importance of timely and clear communications to the Code Manager from the SDS. As the Code Administrators of the Grid Code, SQSS (Security & Quality of Supply Standard), STC (System Operator Transmission Owner Code) and CUSC (Connection and Use of System Code), we feel we are in a good position to be able to feedback and offer our thoughts and participation in further discussions to develop the future governance principles and framework as we believe that there is still much work to be done.

We have provided our responses to the questions within the Consultation as an Appendix.

Should you require further information on any of the points raised in our response please contact Sarah Carter at sarah.carter@nationalgrideso.com in the first instance.

Yours sincerely

Matt Magill

Interim Head of Markets

Appendix 1 – Consultation Question Responses

Section 2

Q1. Do you agree that we should recommend to the Secretary of State that the 11 industry codes listed (including the SQSS) should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Yes. We agree that ten out of the eleven industry codes listed should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver Energy Code Reform.

At present, we are of the view that for in the System Operator Transmission Owner Code (STC) further analysis and discussion is required. This is because there are technical, operational, and commercial considerations that need to be understood – in particular the interactions between the above.

Q2. Do you agree that we should recommend to the Secretary of State that the 5 central systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Yes. We agree that the 5 Central Systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver Energy Code Reform.

Section 3

Q3. Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (i.e. the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.

Although we agree there is significant benefit potential from reform and as a call to action, the Draft Impact Assessment is useful, the high-level approach is based on several assumptions, some of which are hard to substantiate. It is not clear how the benefits identified will be realised in practice, given the high-level assumptions and the level of work required to deliver the code reforms.

The potential for savings amongst the industry from removing duplicated meetings and effort would seem to be the area of greatest benefit and value. These would be the most achievable in our view given one of the key objectives of the proposal is to simplify the codes for industry benefit. We note that industry participants have significantly different business models - some being capital intensive businesses based around infrastructure assets, whilst others being retail organisations. The codes that the industry interact with also differ in detail and frequency. Engaging with organisations to understand what proportion of the operating costs is spent on code change resources for each type of business would be a robust approach.

Code Managers costs (estimated £25m/yr.) are approximated and represent a lower potential benefit than industry savings. However, if these were to reduce by a percentage, after twenty months of consolidation activity, based on our experience, aspirational. The Consultation assumes that after consolidation, a Code Manager will continue to deliver improvement, consequently activity would be unlikely to decrease for a significant period because of the ongoing work to resolve duplication and conflict and improve accessibility to deliver the industry benefits. Any Code Manager benefits should therefore be future weighted to reflect the significant effort needed to enable longer terms benefit realisation.

Ofgem’s costs proportional to the other participants are small and as a key enabler, seeking cost reductions that constrain Ofgem’s ability to make decisions to support the transformation would potentially have a significant negative impact on the overall progress.

There is a need to factor in the costs to consolidate, both from simply putting codes together as well as simplification removing duplication and contention, each bringing different timelines and levels of benefit.

The biggest potential benefit to be estimated in the quantitative analysis is the opportunity cost of not transforming the present code governance model. If the UK is to achieve its net zero goals and develop a world class capability in green technologies, throughout the UK electricity Generation, Transmission and Distribution networks, we require a code governance approach that supports the goals of ECR (Energy Code Reform).

Q4. Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (i.e. the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.

As with the previous question, the design principles, as high-level objectives are sound. However, there is no clear detail around how this will be achieved. Code Managers will be taking on more accountabilities and responsibilities, whilst working under new governance frameworks. This role will be challenging and will need apportioned funding and support. The Impact Assessment applies a 50 % uplift to Code Manager costs. Given the potential complexity of the proposed changes this figure is likely to be too low.

The weightings applied require further analysis and we would welcome further discussions in this area.

Q5. Do you agree with our preferred option to consolidate the CUSC (Connection and Use of System Code) and DCUSA to form a unified electricity commercial code?

We agree that the CUSC should be consolidated with DCUSA (Distribution Connection and Use of System Agreement) to form the Electricity commercial code. This approach aligns with the FSO goal to consider a whole system view. We would also like to highlight that within the STC, there are commercial considerations.

Whilst these commercial codes logically align, the complexity associated with such a consolidation activity should not be underestimated. The programme of work needs great care to ensure, we retain the knowledge and experience of the respective Code Administrators, to ensure that as a customer facing code, support for the industry/consumer is not detrimentally affected.

We have suggestions around looking at what is required from a code and seeing what non-core as this is might help remove duplication ahead of consolidation. For example, do you merge the documents which are complex and fundamentally different, or should you align them for consistent oversight and management?

We would like to highlight that we do not believe that there is a single organisation that has the required capability or knowledge to perform the role from a Transmission and Distribution view - this would require a large amount of work, upskilling and resource to implement.

Q6. Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?

We would support the consolidation of technical codes. Consolidation fits in with the aims of FSO and would support our journey to achieving net zero.

The Consultation proposes that the SQSS is assigned to the System Operator. We believe this is sensible approach and that this also aligns to the Grid Code.

We have concerns with respect to the approach of consolidating the Distribution Code with the Grid Code and with the SQSS. The potential size and complexity of a merged Electricity Technical Code could be problematic, and we would welcome further clarification from the Authority as to how they will be managing and governing the process.

In terms of the STC, we reserve our position, until the Authority provides greater clarity in relation to the future governance processes. Presently, we see benefit in the commercial aspects of the STC sitting within the Commercial Code, with the technical standards and procedures retained within the Grid Code /SQSS.

We believe that this may remove duplication in relation to consequential changes. The STC and SQSS are security standards. We believe that security standards should not be managed within a commercial codes governance framework and that further work is needed in this area to ensure the integrity of the standards.

Careful consideration should be given to any future governance framework that includes security standards.

Q7. Do you agree with our preferred option to consolidate the UNC and IGTUNC to form a new unified gas network code?

Yes. We agree with the Authority's preferred option to consolidate the UNC and IGT UNC.

We note work within the Hydrogen. Consideration should be given as to whether any future Hydrogen code should be a stand-alone code or amalgamated within a consolidated Gas Code.

Given that the ESO will be assuming the role of NESO (National Energy System Operator), we would welcome discussion as to whether a consolidated Gas Code should be placed within the organisation.

Q8. Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?

Yes. It is imperative that the rationalised and consolidated codes have the same overarching governance framework. Transparency and consistency of approach should be key drivers when looking at the future governance framework.

Further, it would be helpful to gain the views of the Authority, industry, and Code Administrators of how they have dealt with previous challenging Modifications. This would ensure that lessons are learned and that any findings are considered within the new code governance framework. For example, we would be happy to discuss lessons learned from the ASR workstream on OC2.

We would emphasise the need for robust governance frameworks and clear and transparent direction in the form of the SDS.

We believe a key component to unlocking value from rationalised/ consolidated codes is having common governance framework, within which the Code Manager has the flexibility to innovate and adapt to meet the specific needs of the individual code.

We further believe that the involvement of industry within Workgroups is critical. Further work should be undertaken as to how SAF's will work and membership of them. The voice of industry is critical to good governance and the competition of high-quality Modifications.

Section 4

Q9. Do you agree with our proposal to publish the first SDS for all codes next year (before code managers are in place)?

Yes, we feel the earlier this is shared with industry, the greater the benefit for all industry parties.

We would welcome clarification from the Authority as to how the SDS will relate to Licence Conditions for future Code Managers,

For those considering whether they wish to be considered for the role of Code Manager, the SDS will form an essential part of their assessments.

Any SDS's should also consider key policy developments such as REMA (Review of Electricity Market Arrangements) and SSEP (Strategic Spatial Energy Planner), which should be integral to framing the SDS guidance.

Q10. Do you have views on the proposed SDS process?

The approach seems sensible in principle.

However, it is unclear against the catalogue of work developed in the SDS how short term and urgent modifications would be managed and how this would impact on the SDS against the backdrop of finite resource.

Whilst we can envisage how this might be achieved as part of the prioritisation model, would this be left to the Code Manager and SAF's to agree or do the Authority have a view on how this should be achieved?

We have some concerns regarding the instances where the SDS may be more prescriptive regarding outcomes and parameters, given potential subjectivity in the setting of outcomes and the uncertainty regarding highly interacting policy such as REMA and SSEP.

Depending on the order in which these uncertainties are resolved, the industry could be faced with a situation whereby there could be fundamental changes to the SDS guidance, over a brief time which could impact operational plans and budgets.

There may also be a need to consider the rationale for shorter-term changes directed by previous SDS guidance in early periods of significant change, that could become obsolete following subsequent SDS guidance. Potentially, initial SDS guidance may suggest code development in a direction which directly conflicts with subsequent guidance reshaped by interacting policy decisions. The best way to mitigate this may be to resist the temptation to be prescriptive regarding outcomes and parameters in the initial versions of the SDS.

Q11. Do you agree with our proposal that a principles-based standard condition for gas and electricity licensees would support the development and delivery of code modifications related to the SDS?

Yes, it would seem a sensible approach and seems analogous to current SCR process.

Section 5

Q12. Do you agree with our preferred option for how a Stakeholder Advisory Forum should be constituted?

ESO is supportive of Option 3.

It is imperative that the SAF's have the appropriate SMEs (Subject Matter Experts) based on the content provided.

SAF's should be based on the overarching principle of providing a solution that benefits the industry and consumers, in a transparent, and fair environment.

The process for joining or engaging in a SAF should be subject to governance and clear, timely communication. The use of voting within the SAF's requires further thought and evaluation.

Future Code Managers will need to fully engage with SAF's. Consideration should also be given to how potential disputes between the SAF's, and Code Manager will be managed.

Linked to the need to improve the quality of changes is the need for robust value-based prioritisation. Our view is that we need participants coming to the SAF's with innovative ideas to drive the transformation to Net Zero and consumer value. Recognising both industry and the code manager resource is not infinite, to accelerate the pace of change requires prioritisation based on the SDS and robust benefit analysis of viable

recommendations identified by industry SME's, supported by a robust streamlined process and governance to accelerate change in a controlled strategic way.

Q13. What are your views on i) a requirement to assess the greenhouse gas impact of code modifications with updated guidance, or, ii) introducing a 'net zero' code objective?

We see benefit in a "net zero" code objective.

Having a firm objective will help the Code manager understand and prioritise where industry time should be spent.

It will also ensure that Modifications raised are considering net zero impacts.

Q14. Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

Yes.

Prioritisation of Modifications by Code Panels needs to be put in the context of the SDS.

The Prioritisation criteria would need to be clear and transparent. Further work is needed in relation to this area. For example, the Queue Management process with key milestones which need to be attained ahead of being able to progress/ move up a prioritisation stack and evidencing this should be incumbent on the relevant Code Manager (industry support/ commerciality/ etc).

Section 6

Q15. Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?

Yes, the phased approach is pragmatic.

A challenge to any phased approach will be delivering significant changes to the code because of the consolidation process, whilst managing the day-to-day business of the ongoing code modification.

Careful thought needs to be given to this issue drawing upon the knowledge, experience and expertise of existing code administrators and previous transformations of this type. The phased approach allows for continuous improvement and development of consolidation activities as we go, its complex.

Q16. Do you identify any strategic or operational considerations that might inform the transition sequence?

Yes.

Many of the codes provide cross reference to one another. For - example, Grid Code references CUSC (Connection and Use of System Code) and BSC (Balancing and Settlement Code) Clauses. Where practical, aligning codes with significant interdependency should be a priority. Where this is not possible, robust dependency mapping as part of the transitioning process, would support Code Administrators / Managers throughout the transition process.

As Code Administrator for multiple, interdependent codes, we have processes in place to accommodate change whatever the sequence. Recognising change inherently carries risk we would expect a risk assessment and transition plan/programme to be put in place.

Q17. What are your views on our proposed transition sequencing?

Based on our experience we believe it is possible to accommodate the transition of the codes in different sequences.

Noting that the proposal is for phased periods of transition, potentially with overlap, there are some elements of detail that need to be worked through, i.e. the management of cross code referencing and how exiting/“inflight” Modifications would be managed.

Q18. Do you have any other comments on how Ofgem should approach the implementation and transition process?

Yes- Transitional arrangements between the current Open Governance arrangements and the new Governance Arrangements will inevitably require strong and timely communication and engagement with associated lead times.

We would like to see the Authority put in place a full project team to lead the delivery of the changes, with the Authority leading and taking full responsibility for the successful delivery of the work.

We believe that it would be beneficial to use lessons learned from the journey of the Retail Energy Code and for these to be shared with industry.