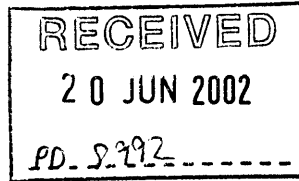


19 June 2002

Our ref: GM/NM

Peter Dickinson
OFGEM
9 Millbank
London
SW1 P 3GE




Dear Peter

Please find enclosed a copy of the CHPA response to the Consultation on the Governance of Electrical Standards.

If you have any further queries, please feel free to contact me.

Yours sincerely

A handwritten signature in cursive script that reads "Jane Andrews".

 Graham Meeks
Deputy Director

Enc.

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Lord Wade

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COMBINED HEAT AND POWER ASSOCIATION

Response to the OFGEM Consultation 'Governance Of Electrical Standards'

INTRODUCTION

The Association welcomes the opportunity to respond to OFGEM's consultation on the 'Governance of electrical standards'.

The Association has for a number of years supported a representative on the Distribution Code Review Panel (DCRP), and was represented on the panel at its inception at the time of the privatisation of the electricity industry. The Association has, therefore, had direct experience of the creation and application of standards during this period, and indeed has participated as an Association in this process since the 1980s with the creation of an amended standard to deal with small-scale generation (G59), when the Association representative chaired the Electricity Council working group.

More recently, the CHPA has been directly involved in the work of the Embedded Generation Working Group (EGWG) and to date the Technical Steering Group (TSG) under the remit of the Distributed Generation Coordination Group (DGCG).

Our experience over the years leads us to agree with the requirement to review the governance of these standards. It is timely to examine this in view of the likely growth in Distributed Generation and the associated technical progress which may be made during the next few years in this area. The separation of the Public Electricity Supply (PES) licence to establish distribution as a separate licensed activity, and the creation of a single electricity market and the associated combination of the technical codes, also makes this a good opportunity to review matters.

The Association is comfortable to have our evidence placed in the public domain and looks forward to working with OFGEM in development of the recommendations expected later this year.

Our response to the consultation follows the structure of the OFGEM consultation document.

DISCUSSION

There is clearly a need for standards within the electricity industry. Such standards need to be developed with full industry participation and should be constructed so as to meet the safety requirements of the network operators but at least cost to the generators and therefore customers. Common standards are helpful as they can allow manufacturers to produce equipment which is applicable across all markets. However, in developing such standards, care should be taken in adopting the most conservative assumptions in order to satisfy all parties.

Certain standards may also be less prescriptive than others. A number of documents which are referred to in the Distribution Code are in fact recommendations rather than formal standards. Such flexibility permits innovation within the networks and encourages sensible developments of equipment. There is, therefore, a need to ensure that this type of thinking is not lost in the electricity industry where pressure on staff numbers may mean that less experienced engineers are required to deal with complex or novel generation connections.

The governance of standards is a growing and topical issue. The OFGEM consultation states that the governance of the Connection and Use of System Code (CUSC) and the Balancing and Settlement Code (BSC) is appropriate. However, from the perspective of small generators, and probably distribution operators, these governance frameworks do not provide well for the representation of smaller market participants and, in this respect, significant improvement could be made.

As an example, both the CUSC and the Grid Code Review Panel (GCRP) are considering amendments to the Grid Code and associated changes to the CUSC which specifically deal with small generators connected to the distribution network and yet neither organisation has a formal membership which involves small generation, nor takes into account in advance the impact on Distribution Code. There also seems to be inter-governance problems even within the CUSC and Grid Code processes which OFGEM has already noted. Any governance arrangements which are therefore decided on as part of this consultation should take proper account of the other industry bodies so that there is an appropriate, interlocking structure.

Any standards will also require an appropriate and expeditious review process in view of the rapidly changing circumstances and challenges expected in the electricity markets over the next 20 years. This must be transparent and involve all parties.

The international dimension for electricity standards must be properly covered. Clearly, manufacturers now operate in worldwide markets and the presumption should be that 'in country' standards should not be more prescriptive than that required on an international basis without very good reason.

In the longer term the concept and need for formal standards and the requirement for network operators to deliver standards of performance which satisfy regulators may mean that flexibility over standards can be encouraged. A good example of this is the debate concerning the Information and Incentive Project (IIP) and the debate over P2/5 network security standard. However, the CHPA accept that this is a debate for the future and therefore agree that standards are appropriate at this stage.

AREAS OF CONCERN

In its consultation, OFGEM asks whether it is appropriate that the scope of the review should cover both Distribution Code and Grid Code technical standards. The CHPA is of the view that it is necessary to look at both governance arrangements, as increasingly reviews of standards which apply to generators connected to the distribution system will appear at a Grid Code level. This already is the case in Scotland and recently the creation of a new Embedded Power Station Working Group at a Grid Code level emphasises this problem. The continuing confusion over the governance and introduction of clause 6.51 in the CUSC also reinforces this point.

Having said this, the arrangements for dealing with technical standards under Distribution and Grid Codes are different. It appears that, at a Grid Code level, there is a more inclusive process, whereas at a Distribution Code level concern has been expressed over standards being developed by the Electricity Association in a process that excludes generator representation¹.

Certain parties may argue against inclusion of a review of the governance of the Grid Code technical standards but for the above reasons this should be resisted, although the nature of the view of this aspect may well be limited to inter-governance arrangements. Although the approach under the Grid Code is probably preferable, there remains, however, a case for a review of the Grid Code technical standards.

The efficiency of the standards process is one of the major areas which the CHPA has commented on through its sponsored membership of the DCRP. Several engineering recommendations have taken in excess of 3 years to be implemented, others have gone through several Electricity Association (EA) drafting processes and subsequently failed to come to fruition because of insufficient and/or incomplete consultation.

On other occasions the DCRP has had to refer back a document produced by the EA as inadequately drafted or failing to take account of generator concerns through lack of any consultation with them. For all these reasons the system is clearly not working optimally. The CHPA, together with other small players, do not have the necessary financial

¹ Although this is generally the case, there have been some exceptions to these practices. NGC initiated a 'private' EA review of G75 which resulted in a completely inappropriate redraft, and more recently EA have tried to involve representatives of domestic CHP in the drafting of a standard which might apply to them.

resources to contribute to standard bodies although they have within their membership the ability to contribute to the process of standards settings through the use of consultants and clearly can consult within the membership group in order to achieve appropriate 'sign-off' of any agreed documents.

We agree that OFGEM should not extend its existing role beyond that which it has already. It is necessary for OFGEM to retain its position as an independent arbiter in those limited number of instances when industry cannot agree.

It has been the experience of the CHPA, through attendance at the DCRP, that the involvement of the DTI and HSE, in setting and contributing to standards which have been created by the industry, has been less than satisfactory. On several occasions it appears that the DTI have not been aware of the role and function of the Distribution Code and the relationship between standards that the DTI set, and the other industry standards. The speed of response associated with changes in these sponsored standards also needs to be improved if there is to be an appropriate match of progress with efforts within the industry.

OFGEM asks whether independent chairpersons should be appointed to standards committees. It is the CHPA's experience that provided the chairperson adopts an independent role, existing arrangements will be quite adequate. Our experience is that network operators have chaired such standard committees fairly and appropriately.

OFGEM lays out six options for change and asks for views on each of these. In the remaining part of this consultation we comment on our preferred option and make observations on the other suggestions made in the paper.

OPTIONS FOR CHANGE

The first option suggested by OFGEM is to enhance the remit of Distribution and Grid Code panel to publish technical standards. This is the Association's preferred route.

This approach has the advantage of working within an existing structure and provided that the other governance arrangements within the industry are addressed it would have the confidence of the generators.

DTI and OFGEM should have reserved powers to approve the appointment of appropriate chairpersons although these should not be exercised until such time as the present arrangements are found inadequate.

The Association agrees with the appropriate format proposed for considering a work proposal associated with a standard change, and recognise the ability of the Electricity Association to carry out this work. However, we would not wish this to become the de-facto route, as selection of advisers and secretariat should be a competitive process in order to achieve best value for money and quality of service.

The Association also broadly agrees for the need to consider the interests of all parties and we are supportive of the use of the web in order to progress drafting efficiency. The issue of confidentiality and the status of draft documents will need to be addressed (this is a current problem within the DGCG).

It is vital that the proposed arrangements provide for the appointment of groups of independent consultants that are able to represent small players efficiently.

Regarding funding of any new organisation, the Association proposes that this is achieved through the existing route of funding through the monopoly network operators. The treatment of such funding can then be dealt with as part of the periodic regulatory price control reviews - this will ensure a fair distribution of costs between customer groups. Such funding arrangements should extend to include the funding for representation of small players – as discussed previously.

Turning to Option 2 and Question 4. The CHPA do not support a commercial role for the Distribution Code Panel themselves, as it is too broad an arrangement and cuts across other routes of representation. We believe the most appropriate action is for the appropriate technical standards group under each panel to refer commercial and regulatory issues to other groups for consideration.

There already exists a Transmission Charging Methodology Forum (TCMF) to discuss NGC's charging methodologies and the principles behind them. We suggest that a similar forum is established to address charging principles and regulatory issues for distribution. Consideration should be given as to how the TCMF might be re-constituted as a Network Charging Methodology Forum – to include distribution charging and other commercial issues of concern. The chairmanship of this group would need to be considered carefully.

There is also an issue concerning the relationship of the DGCG and its Technical Steering Group, who are presently considering a number of these issues. Clearly duplication must be avoided in these areas.

The CHPA considers that Option 3 - to establish a new industries standards body - is too bureaucratic and runs the risk of being an expensive choice. However, it does have some merit insofar as it potentially addresses European standards and may encompass the DTI and HSE areas of interest.

Option 4, which proposes that Elexon govern and publish electrical standards, is an unnecessary development. Although Elexon has very good secretariat services and hence governance of standards might be achieved on a marginal cost basis, this approach would, nonetheless, require the recruitment of a number of specific experts with knowledge of the distribution and transmission networks. Furthermore, it may not have the confidence of the small players, as Elexon is principally focussed upon the interests of BSC parties.

Option 5 develops the role of other standards bodies. These clearly need to be involved, particularly on international basis, but their effectiveness is likely to be affected by a lack of knowledge of the electricity industry.

The final Option of asking the DTI to manage a standards body again seems unnecessary. The CHPA would be interested to learn as to whether the DTI has carried out this role in other similar industries, such as gas. If this approach has proved successful the Association may reconsider this option.

The remaining questions (12 to 18) proposed have been substantively addressed in the earlier discussion within this document.

The Association welcomes the opportunity to respond to this OFGEM consultation and looks forward to participating fully as the debate develops.

SUMMARY

The Association supports the proposal that governance of electrical standards would best be achieved through an enhancement of the Distribution and Grid Code Review Panels.

Safeguards over the appointment of chairperson should be adopted with transparent and flexible arrangements implemented for the appointment of bodies to process work programmes.

Funds must be made available for the appointment of consultants to represent the interests of small players. Transparent procedures for the selection and appointment of such consultants should be established. Funding of all aspects of the Panels' activities, in respect of electrical standards, should be raised from customers via the monopoly network operators and this should be made an explicit element of their respective regulatory price controls.

Graham Meeks
Deputy Director
Combined Heat and Power Association

June 2002

The views expressed in this paper cannot be taken to represent the views of all members of the CHPA. However, they do reflect a general consensus within the Association.