BG Group

100 Thames Valley Park Drive
Reading
Berkshire RG6 1PT

Telephone + 44 (0) 118 929 3322
Fax + 44 (0) 118 929 2057

Peter Dickinson
Technical Adviser
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

11 July 2002

Dear Peter,

GOVERNANCE OF ELECTRICAL STANDARDS – CONSULTATION DOCUMENT

We welcome the opportunity to respond to Ofgem's consultation on the governance of electrical technical standards. We believe this review is necessary and timely. The existing governance framework was developed in a period when the electricity companies were the only significant stakeholders. The industry is changing and a wider range of stakeholders are affected by these technical standards.

With apologies for the lateness of our response, we would like to make the following comments:

General

Overall, we would support Option 2 for two principal reasons:

- **The current arrangements are inappropriate**. *De facto* regulatory instruments such as Engineering Recommendations require a governance process where wider interests than the members of a subscription – only trade association (The Electricity Association) are represented constitutionally, rather than by invitation. This is particularly the case where the trade association's membership itself is constitutionally limited to electricity (in this case transmission and distribution) licence holders.

- **Inclusion of Commercial Issues**. Technical standards arguably have just as much direct commercial impact as commercial terms and conditions. It follows therefore that technical and commercial issues merit similar treatment. The governance arrangements for the Balancing and Settlement Code (BSC) and the transmission system Connection and Use Of System Code (CUSC) were carefully crafted to ensure a level playing field for involved stakeholders and directly tackle commercial issues in a standardised and participative way. One rationale for CUSC in particular is to ensure reasonable standardisation and consistency for transmission system connection and use of system. Given the changing nature of distribution networks, there is little justification in a model for distribution that is any less representative of all relevant stakeholder interests.

Other points worth noting

- **Electricity Association response to pre-consultation letter.** The Electricity Association's (EA) response to the pre-consultation letter is encouraging, particularly given that it is largely the EA's processes and purview of technical standards that is most affected by any proposed change. This is particularly the case for its response to the pre-consultation question on practical options for improvement:

  Pre-Consultation Question 5: *Can you suggest, in outline, practical options for improvements?*

  EA Response:[1] *Working groups to be established under either the DCRP or GCRP to create or revise standards. The panels to be responsible for appointment of Chairman and Secretary. Electricity Association could then arrange for publication.*

- **Role of DTI / HSE**

  We consider this to be extremely important. Our experience with the development of G83 has clearly shown that a failure to engage the DTI's Engineering Inspectorate and HSE at an early stage gave rise to inconsistencies between G83 and certain aspects of the draft Electricity Safety, Quality and Continuity Regulations. This resulted in eleventh hour dialogue with the Engineering Inspectorate, and much hard work having to be reconsidered in some detail. We understand this experience has been repeated in the last few weeks for another Engineering Recommendation – G77/1, causing considerable frustration for both DNOs and the Photovoltaics industry. We also believe that other standard-setting bodies (for example BSI and IEE) should be engaged in the process at a much earlier stage.

Response to Detailed Questions

Q1. Is it appropriate to restrict the scope of this review to the governance of Distribution Code technical standards or should it include governance of Grid Code technical standards?

The review should include within its scope any standard that has an impact on the wider stakeholder community. Similar to the Distribution Code, the Grid Code also cross-refers to Engineering Recommendations and these in turn can have significant design and interface implications for distributed generators. On that basis, there appears to be little justification for any difference between the future governance processes for Grid Code-referenced and Distribution Code-referenced standards. In particular, there is much discussion about future scope for smart metering systems facilitating the provision of certain Ancillary Services to

[1] As reported in Appendix 2 of the consultation document

Q2. Would it be helpful to establish Technical Standards Groups under the Grid and Distribution Code Panels?

Yes, but it is important to allow use of the existing expertise structure wherever possible. The Electricity Association in particular provides valuable expertise and secretariat services. If the governance process were to move away from EA members to the Grid / Distribution Code Panels, Electricity Association Services ltd (or for that matter any competing organisation) could, if interested, undertake this work on a commercial basis.

Q3. How should the enhanced Grid and Distribution Code Review Panels be funded?

Network licence holders are obliged by law to facilitate competition in generation and supply. The Grid and Distribution Codes, and by reference, their associated technical standards, stem from licence obligations in furtherance of this statutory obligation. On this basis, the Panels should be funded by the network licence holders, and these costs recovered through transmission and distribution use of system charges.

Q4. Is it appropriate to modify the role of the Distribution and Grid Code Review Panels to cover commercial, regulatory and administrative matters?

For distribution in particular, these issues certainly need addressing in a more transparent and participative than presently exists. The model applied in transmission – the Connection and Use of System Code and its change process provides a useful model that could be applied to distribution for commercial, regulatory and administrative matters. It would make sense to mirror these arrangements for distribution, rather than seek to expand the scope of the Distribution and Grid Codes and their respective change processes to cover these areas.

Q5. How should these panels be funded.

Answer as Q3.

Q6. Is it appropriate that drafting of electrical standards be performed by a new body with a remit to act for the benefit of the principal stakeholders?

The precise body who performs the actual drafting of the standards is less important than the underlying governance process. In our answer to Q2, we have suggested that Electricity Association Services ltd, or other organisations could perform the actual drafting and administrative basis on a commercial basis, provided this is done in proper consultation with all interested participants.

However, it would be wholly inappropriate for standards to be drafted with an objective to act for the benefit of the principal stakeholders. Instead the objective should be that standards are drafted in furtherance of the principal statutory duties placed on the Authority (the protection of the interests of consumers, wherever appropriate through promoting competition) and on licence holders (the facilitation of competition in generation and supply).

Q7. How should such a body be funded?

Answer as Q3.

Q8. Should Elexon oversee governance of the Distribution and Grid Codes and referenced electrical standards.

Elexon performs a valuable role in administering changes to the BSC. The precise organisation that undertakes this work is less important than the underlying governance process – we have suggested for example in our answer to Q2 that Electricity Association Services ltd would also be well placed to undertake this work. There is no reason why Elexon could not act in a similar capacity, either on a commercial or an administered basis.

Using Elexon to oversee the governance of the Distribution and Grid Codes would, however, have other advantages. For example, the arrangements for settlement presently operate independently of technical and commercial considerations for networks. There are some issues that would benefit from a degree of consistency across these two areas. Metering is an obvious example of this, where both the settlement process and the distribution businesses each have their own requirements for metering. It is theoretically possible at present for the BSC to lay down certain requirements for metering and the distribution companies, quite separately, to lay down different requirements. A single organisation overseeing the governance of both the BSC and distribution issues would help to ensure greater consistency.

Q9. Should the governance of electrical standards by an alternative UK or international standards organisation be pursued?

We consider this to be unnecessary, but the Distribution and Grid Code Panels should provide resources for engagement with international standards development bodies, particularly where these standards will have legislative force.

Q10. Should the DTI set up a new standards body?

We consider this to be unnecessary, but we believe that the existing DTI Engineering Inspectorate, the Health and Safety Executive and the IEE need to be directly engaged as a key stakeholders at an early stage in standard development and change, under Option 2.

Q11. How should a DTI standards body be structured and funded?

N/A.

Q12. Should all draft documents be published on a publicly accessible Internet site, and should the site have a facility for readers to provide comments using the internet?

Yes. The case for this is strong – even with the best of intentions for consultation and inclusion of stakeholders, it is always possible for an important interested party to get missed. The use of the internet in this manner ensures complete openness and transparency.

Q13. Are there other more appropriate governance arrangements not discussed above that should be considered?

Our preferred option is Option 2, but it is worth considering a combination of Options 2 and 3. In particular, the participation of small players is problematic because they have limited resources with which to engage in the development and change of technical standards. Option 3 puts forward the idea that independent consultants could be appointed on behalf of small third parties that are not able adequately to represent themselves. We believe this should take place, as it currently does in the Distributed Generation Technical Steering Group, where independent consultants represent the interests of CHP and Renewable generators.

Q14. Should drafting committees for standards falling under the Panels be open public meetings? If so, how is this best achieved?

There needs to be a balance between ensuring transparency and making progress. Open public meetings can lead to latecomers in the process causing delay by reopening discussions previously debated at length. We therefore believe that open public meetings are not appropriate.

However, transparency is important, and the selection of experts to sit on drafting committees must be undertaken in an open and transparent way, and the facility for others to feed in views must be provided. In certain cases, where a strong interest arises, there is no reason that additions cannot be made to drafting committees.

Q15. Is it necessary for drafting committees to have fully independent chairpersons? If so who might such people be?

The chair of a drafting committee must **act** impartially at all times. However, we believe that the expertise of the chairperson is a more important consideration that their full independence. Drafting committees need to make progress, and full independence at the expense of expertise can be unhelpful in steering a drafting committee towards a conclusion.

Q16. How best can third parties, particularly small players, take part in development of industry standards and how should this be funded?

The use of trade associations and independent consultants is an effective way of representing the interests of small players. As we have suggested in our answer to Q3, this should be funded by the network companies and recovered through use of system charges.

(No Q17)

Q18 . Overall, which option do you regard as the preferred way forward?

As outlined in at the beginning of this letter, we favour Option 2 overall, but believe this would benefit from the inclusion of trade associations and / or consultants to represent the interests of smaller players.

Yours sincerely

Dave Sowden
Head of Regulation and Public Affairs - MicroGen