

Ofgem Consultation - Governance of Electrical Standards Comments by Innogy plc

This note has been prepared in response to Ofgem's consultation "Governance of Electrical Standards" on behalf of Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited. In making our response we have set out our comments within the framework of the questions raised in the consultation paper.

Question 1: 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?

Whilst we are generally satisfied with the governance and representation of the Distribution Code Review Panel, we believe that certain aspects could be improved, namely the relationship with the Electricity Association and the incorporation of regulatory and commercial standards. We believe that the Electricity Association standards that are relevant to the Distribution Code should be under the direct governance of the Distribution Code Review Panel in order to ensure greater transparency and efficiency; a current failing that was illustrated by the recent review of G75. In addition, we believe that the governance of the commercial arrangements covering the connection to and use of the distribution network is wholly inadequate and should be incorporated into the workings of the Distribution Code Review Panel.

Concerning the Grid Code Review Panel, again we are generally satisfied with the governance and representation. However, we believe that there is scope to improve the governance of standards produced by NGC pursuant to its licence, such as NGC's Security Standards and its Charging Methodology Statements for Use of System and Connection to NGC's transmission network.

Question 2, would it be helpful to establish Technical Standard Groups under the Grid and Distribution Code Review Panels?

It is our view that technical standards relevant to network operators and generators are inextricably linked with commercial considerations. It has been demonstrated in several areas that commercial considerations are able to provide a more efficient and effective alternative to administered technical requirements. It is unlikely that a specialist standards group would have sufficient ability to integrate commercial considerations into the technical standards and, as such, would quickly become remote from the requirements of the directly affected parties.

Question 3, how should the enhanced Grid and Distribution Code Review Panels be funded?

The Grid and Distribution Code Review Panels, either in their present form or under any expanded role, should continue to be operated as a license obligation

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by the parties involved. As such, costs should be recovered via the licensees' regulated income.

Question 4, is it appropriate to modify the role of the Distribution and Grid Code Review Panels to cover commercial, regulatory and administrative matters?

We are generally satisfied with the governance of the Grid Code Review Panel inasmuch as it relates to technical aspects of the NGC transmission system. However, as stated above, certain technical standards are inextricably linked with commercial considerations and we note reluctance by NGC to readily embrace and facilitate commercial solutions where these might provide a more efficient and effective alternative to existing technical standards. This reluctance has been illustrated in the recent Connection Condition 6.3.3 debate, the move towards a frequency response market and the possible relaxation of the reactive capability requirement of Generating Units.

As stated in our answer to Question 1, we believe that the governance of the commercial arrangements covering the connection to and use of the distribution network is wholly inadequate and should be incorporated into the workings of the Distribution Code Review Panel. Currently, there is no distribution equivalent to the CUSC and the governance of commercial issues is subject to the vagaries arising from the interpretation of individual DNO's licence statements and issues determined by Ofgem. We would support the incorporation of commercial standards into the role of the Distribution Code Review Panel and believe that standard forms of connection agreement and other related agreements would be a key element in these standards.

Question 5, how should these panels be funded?

Costs should be recovered via the licensees regulated income (see our answer to Question 3).

Question 6. 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?

We do not support the creation of a new body that will inevitably create additional bureaucracy and costs to be borne by the industry and have no reason to believe that such a new body would offer any improvement on the current arrangements. As for the proposal to create a Technical Standards Group (see Question 2), it is unlikely that a new body would have sufficient ability to integrate commercial considerations into the technical standards and, as such, would quickly become remote from the requirements of the directly affected parties.

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Question 7. How should such a body be funded?

Not applicable (see our answer to Question 6).

Question 8. Should Elexon oversee governance of the Distribution and Grid Codes and referenced electrical standards?

No. See our answer to Question 6.

Question 9. Should the governance of electrical standards by an alternative UK or international standards organisation be pursued?

No. The governance of electrical standards by an alternative organisation is unlikely to displace the need by the TSO/DNO and connected parties to review the applicability of such standards to generating units and the transmission/distribution network. In any event, technical standards are harmonized within the European Union and individual nations are not permitted to issue conflicting standards. As such, standards may be based upon European or International Standards and should only identify such characteristics as range limitations, alignment restrictions and other specific requirements resulting from such requirements as National Legislation and Safety Rules.

Question 10. Should the DTI set up a new standards body?

No. See previous answers.

Question 11. How should a DTI standards body be structured and funded?

Not applicable

Question 12. 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?

In principle, we would fully support any move toward greater transparency and participation in the process of formulating standards. Whilst acknowledging that any increased level of participation must take account of the practicalities involved, we believe issues such as copyright and generation of sales income are not unique to the electricity supply industry and should not prohibit greater transparency and participation.

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Question 13. Are there other more appropriate governance arrangements not discussed above and that should be considered?

No.

Question 14. Should drafting committees for standards falling under the Panels be open public meetings? If so, how is this best achieved?

We are of the firm view that Panels can only function effectively if they comprise representatives of parties directly affected and of not public attendees at an open meeting. However, as stated previously, we would fully support any moves that might improve the transparency and participation of the current processes at reasonable cost. In our experience, due to the costs and demands on the resources of organisations, there are unlikely to be significant numbers of representatives seeking attendance as observers at Panel meetings. We would therefore support the suggestion, possibly for a trial period, that Panels be convened as open public meetings, allowing the attendance of public observers.

Question 15. Is it necessary for drafting committees to have fully independent chairpersons ? If so who might such people be?

Given the complexity of the industry, it is unlikely that any chairperson who was fully independent would have sufficient knowledge to either chair such a drafting committee efficiently or have the vested interest to facilitate a pragmatic solution. In any event, the use of a fully independent chairperson would inevitably increase the overall cost to be borne by the industry.

Question 16. How best can third parties, particularly small players, take part in development of industry standards and how should this be funded?

The representation of 3rd parties and small players may be achieved through either trade organisations such as the Association of Electricity Producers or by combining with other players. In any event, the cost of participation should be funded by the players involved, as is the case for larger players.

Question 18. (no Question 17 asked) Overall, which option do you regard as the preferred way forward?

The consultation paper sets out six various options for change. Of the options proposed, our favoured approach would be a sub-set of Option 2, whereby the Distribution Code Review Panel encompasses a commercial role.