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Dear Mark

I am writing in response to your letter dated 28th November, that sought views on Ofgem's proposed review of industry code governance. This response is on behalf of the Centrica group of companies, excluding Centrica Storage.

Centrica agree with Ofgem that there are deficiencies within the present arrangements. We welcome a review and believe this should focus on the following issues;

- The Role of Ofgem
- The scope of governance arrangements including charging methodologies
- Robustness of the modification prioritisation processes
- Accessibility and transparency, such that suppliers have an appropriate level of influence
- Agent governance and the ineffectiveness of supplier hub arrangements
- Opportunities for increased self governance
- The Role of code administrators
- Rectifications and Remedies
- The relevance of code objectives and their alignment with Ofgem's statutory duties

We have elaborated on each of the above points below.

1. Role of Ofgem; We are keen to ensure that Ofgem's involvement is both timely and appropriate. Ofgem should act principally in response to calls from the market and consumers for its intervention, save where (after due process of consultation) it considers that broader industry reform is called for, in order to properly deliver on its statutory duties. The trigger points and mechanisms for such intervention are however unclear and lack transparency, therefore constraining the ability of suppliers to seek increased Ofgem involvement.

As mentioned above, it may sometimes be necessary for Ofgem to proactively stimulate change in order to fulfill its statutory duties. This may be particularly appropriate where, for example, co-ordinated changes are required to codes, licences and/or network pricing arrangements. Such proactive activity should be after due consultation and result in broad guidance, as opposed to detailed involvement with the initiation of any particular modification.

Presently Ofgem may only approve or reject an industry code modification proposal. In terms of, for example, charging methodologies Ofgem is only able to approve or veto the changes proposed by the network companies. There may be benefit in broadening such decision making options such that, for example:

- Ofgem could ask for further analysis
- Ofgem could suggest in broad terms the sort of changes that would make a proposal acceptable, as opposed to simply explaining some reasons for the rejection;

In addition we believe that there is benefit in increased quality of Ofgem engagement and input into industry discussions themselves. This along with the suggestions above would ultimately improve the speed and quality of the decision making process.

2. Scope of Governance Arrangements; The ability of suppliers to influence industry arrangements is unfairly restricted in a number of critical areas;

- **Charging methodologies;** We agree that there are benefits in changing the governance of such methodologies, such that users can propose changes to them. Presently there is no mechanism for suppliers to initiate improvements or to formally dispute, vary or appeal changes proposed by Transporters or Distributors.
- **Network and System Operator incentive schemes;** We would also see such governance extending to include incentive schemes. Such schemes would benefit from greater levels of transparency.
- **General Terms and Conditions;** As with charging methodologies, other arrangements exist to which suppliers are party but are unable to initiate change. The arrangements for new connections “site works” activities is a specific example, with suppliers lacking a proper mechanism for securing improvement or for formally disputing changes that have been “proposed” by transporters.

We agree that the industry codes identified in Ofgem’s letter should be reviewed whilst noting that the transmission arrangements in electricity and gas are less problematic. The Master Registration Agreement covering electricity customer transfer arrangements is in our opinion the most satisfactory of all the various governance regimes. It contains high levels of self governance that are supported with a right of appeal to Ofgem. In addition levels of codification are appropriate, rectification processes sound and costs reasonable. Further whilst gas governance arrangements can be improved, they are generally more efficient and effective than the electricity balancing and settlement governance arrangements.

3. Robustness of modification prioritisation processes; Whilst processes for urgent modifications do exist they are generally ineffective for anything other than simple change proposals. Progress can too easily be delayed by parties seeking to protect their own commercial interests. As a result industry deficiencies such as the inappropriate allocation of gas imbalance charges can persist to the detriment of suppliers or particular market sectors for an unacceptable length of time. This results in potentially avoidable or inappropriate costs being faced by suppliers and customers.

4. Accessibility & transparency; All Code Signatories should be allowed access to industry decision making processes, with appropriate facilities for the representation of concerns or issues of the wider community, including consumers. Presently this is not

always the case, especially in the electricity market where some "expert" groups can make decisions in isolation from and without consultation with the market.

Companies with both supply and network business are afforded greater access and influence to industry decision making processes than others. For example, in some cases on voting rights, where those with both network and supply businesses can adopt positions on supply matters based on net group level impact. This means that companies with both network and supply businesses have a greater influence by virtue of their multiple role. The influence of network businesses in supply matters should be strictly limited.

We believe it is timely to review how voting rights and decisions are managed under the various codes, and whether decision making/voting rights should be restricted to those impacted".

Suppliers must have improved visibility as to the operation of certain aspects of the code arrangements themselves. Costs – especially pass through costs and performance - are specific areas where suppliers as the contracting party should receive more information and assurance. More broadly we are keen to see increased levels of transparency and supplier engagement with regard to the price control review processes, as we discussed with you during the recent GDPCR process.

5. Agent governance and the ineffectiveness of "Supplier hub arrangements"

Many of the industry processes are dependent upon each supplier managing the performance of their agents. This supplier hub approach does not work; there are too many agents, too many interdependent data flows and too many points of failure. As a result customer transfer processes do not work effectively and customers are inconvenienced. Agents need to be more directly accountable for their failures especially when they are required to send industry data to a party with whom they do not have a contract. The complexity of the existing metering model is a major issue of itself today and even more so in the context of the introduction of smart meters, as we have said in our response to the recent consultation on smart metering and in relation to our proposals for the introduction of a regional franchise model.

6. Opportunities for self governance; Aspects of the industry arrangements have become overly complicated especially in the electricity market, where for example 25 separate flows are required to complete a customer transfer. However, we believe it is important to also recognise that whilst complex, some aspects of the arrangements reflect the complexities of market design rather than any undue or intentional barrier. The governance processes themselves are becoming suffocated by the burden of maintaining over 10,000 pages of documentation and as a result parties may be deterred from initiating change proposals that would be of benefit to the market. Governance arrangements also differ sharply between codes, principally as a product of history rather than design.

Increased levels of self governance would be a positive step forward, particularly in areas where there is lower materiality, risk or contention. However, the issues of access and transparency would need to be properly addressed first. In addition an enduring right of appeal to Ofgem must be in place for all matters that relate to industry arrangements.

7. The Role of Code Administrators; Code administrators should perform a simple administrative function facilitating the change process on a neutral basis. However in practice, the administration requirements vary significantly depending upon the function that the administrator provides. For example Elexon have a wider remit including procurement

and management of central IS systems. By necessity the latter has to be performed by an independent entity and forms the bulk of their cost.

We should aim for the fewest practical number of code administrators, recognising the increasingly dual fuel nature of the market. Each code administrator must justify why it needs to exist, why it cannot be amalgamated with another, and why any costs exceed those of comparable service providers. As part of the review, benchmarking of the administration functions across gas, electricity and other industries should be undertaken. Consideration should also be given to ownership, control, interdependence and costs.

8. Rectifications and remedies; Rectification processes are inconsistent and in many cases deficient within certain industry codes. Additionally remedies are generally unavailable to those parties that suffer detriment as a result of the malpractice or performance failure of another party. Appropriate and effective remedies need to be introduced into each industry agreement.

9. The relevance of code objectives and their alignment with statutory duties


The code objectives are transparent and well tested. Care should be taken in any review to avoid changes to these objectives that may have unintended consequences.

First and foremost Ofgem is an economic regulator and care should be taken not to dilute the strength of the existing code objectives by the addition of others. We believe the better facilitation of competition and efficient operation of the distribution and transmission networks must remain of paramount importance for Ofgem. We do however recognise the importance of Ofgem continuing to incorporate sustainability development into their agenda. However, it is key that the consequences of any change to code objectives is fully understood, especially where it may result in conflicts.

To recap, Centrica is encouraged by the proposed review of industry code governance arrangements. The guiding principle of the Codes and their interpretation should be to benefit the end customer. All too often, this is not the case. Of paramount importance is the need to make improvement of industry arrangements easier to achieve by improving the prioritisation and responsiveness of the existing code governance arrangements. In addition suppliers need to be afforded significantly greater levels of influence over charging methodologies, incentive schemes and other such arrangements that have a significant financial or operational impact upon them.

Should you have any questions or wish to discuss this response further please do not hesitate to contact Steve Briggs, Senior Regulation Manager on the above number.

Yours sincerely,



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