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Mark Feather
Director, Industry Codes and Licensing
Ofgem
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Dear Mark

Re: Review of Industry code governance

Statoil (UK) Ltd (STUK)

Is it time to look again at the effectiveness of code governance?

STUK recognises that there has been significant structural change in the gas market through the Distribution Network sales programme; STUK participated in many of the meetings at that time, which sought to align governance arrangements, with the new regime.

For the most part, STUK considers that industry participants have been successful in developing a mechanism, whereby code signatories are able to modify the rules to better reflect an evolving UK gas market. It is important that we manage the right balance between flexibility to react to and promote change with regulatory stability, which will, in turn, promote investment in the UK market.

Overall, STUK does not believe that concerns with the current code governance arrangements in the gas market warrant significant change to the structure of the governance rules, however, we understand that there may be greater areas for concern in the electricity market and so it seems sensible to look at all areas of code governance holistically, if successes in one area can be taken across to another.

Critical analysis of modification proposals

STUK recognises that there have been occasions where a modification proposal has not been sufficiently drafted to such a level where it can be adequately appraised by industry participants, owing to, for example, ambiguity in what the proposal aims to achieve or questions surrounding whether the proposal actually constitutes a change to the Uniform Network Code. We consider it is the role of the code secretary and the Panel to resolve



such issues at the initial stages of a proposal, which should, in turn, lead to a leaner modification process as workstreams will be able to focus discussion on the merits or otherwise of a proposal, which can then be better reflected in a modification report.

It is important for all market participants, including the regulator, to participate in as much of the debate as possible, through the relevant workstreams and groups, to ensure that those affected, gain a full understanding of the relevant proposal. Whilst modification reports could include more effective and critical assessment of the modification proposals, this can never replicate the value gained from participating in industry discussion.

The relevance of code objectives – are they still fit for purpose?

The current relevant code objectives are broadly fit for purpose.

Charging Methodologies

It would seem entirely appropriate that participants directly affected by changes to the charging methodologies should be able to propose changes to such methodologies, however, this must be weighed up against the risk of an influx of proposed changes, which may serve to unduly thwart effective use of industry resources.

Other Issues

We consider there is scope for more self-regulation within codes, as a means to improving efficiencies within the process and, therefore, freeing up resources of the regulator to monitor the market. Self-regulation can only be effective, however, with the appropriate constitution of a Panel or committee to mitigate the risk of undue discrimination against any one sector of the market.

Governance Review

We agree that the stated core and broad objectives need to be considered in defining the scope of the project and identifying potential changes. A degree of caution must be exercised, however, when promoting rigorous and high quality analysis to ensure that this is not outweighed by higher costs in the provision of potentially over- bureaucratic reports and meeting processes.

Way forward

STUK looks forward to participating in the 'Powering the Energy Debate' event on this topic, to discuss the above issues further. Please do not hesitate to contact me if you wish to discuss any of the above, prior to this event.

Yours sincerely

Christiane Sykes
UK Regulatory Affairs Manager
Statoil (UK) Ltd

*Please note that due to electronic transfer this letter has not been signed.

