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Review of industry code governance

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Review of industry codes governance

Why now?

- The arrangements are fragmented
- Modification processes showing signs of stress
- Our statutory duties have changed
- The nature of participation is changing

Is the governance framework fit for purpose?

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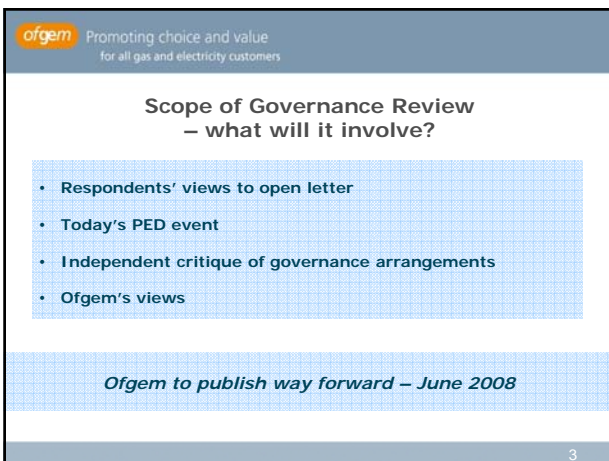
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Scope of Governance Review – what will it involve?

- Respondents' views to open letter
- Today's PED event
- Independent critique of governance arrangements
- Ofgem's views

Ofgem to publish way forward – June 2008

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- Quality of analysis – respondents’ views**
- Several market participants indicated that quality of analysis was not problem or issue
 - Improvement requires more engagement from Ofgem
 - earlier participation in process
 - terms of Ofgem engagement should be clearly set out
 - Some smaller market participants took a different view
 - reports incomprehensible or lack critical assessment
 - participant views reported but not assessed/analysed
 - ...this hinders engagement
 - Some support for additional Ofgem power to :
 - “call in” proposals that are not being properly assessed
 - send modification reports back to panel
 - call for more analysis

- Comparison of analysis – BSC/UNC**
- BSC Mod proposal P211 – Electricity Cash-out**
- Approx 400 pages of material
 - FMR 26 pages
 - Assessment report 55 pages
 - Plus responses, presentations and other analysis
 - Panel discussion against objectives and rationale
 - Plenty of analysis, but is it accessible?
- UNC Mod proposal 0149 – Gas Emergency Cash-out**
- Approx 45 pages of material
 - FMR 19 pages plus responses
 - Analysis of mod limited (approx 5 pages)
 - No panel discussion against objectives or rationale
 - Restatement of respondents’ views – no critical analysis

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Moving charging methodologies into codes

- **Mixed views received from market participants**
 - Some supportive – **welcome consideration** of the issue, **potential transparency benefits**
 - Some opposing views – **potential for increased uncertainty**
 - Some support for **independent administration** of methodologies
- **Network businesses generally unsupportive of move**
 - Potential for **proliferation of proposals** / additional **resource requirements** / greater uncertainty
 - ENA **agrees issue is within scope** – but with caveats

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Alignment of code objectives

- **Strong support from renewables sector**
- **Support from other market participants for considering the issue - although many signal a cautious approach:**
 - Important to consider interactions with **statutory and licence objectives** of network business
 - Clarity needed on **interpretation of objectives** and the need for **weightings** if new objectives are added
 - Risk of increased **complexity**
- **Energywatch agrees that it is timely to consider alignment issue**
 - Lack of alignment means Authority does not receive all necessary information

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Fragmentation, complexity and other issues

- **Concerns expressed that existing arrangements are complex**
 - harmonisation and convergence of mod rules necessary
 - consider code/administrator convergence
- **Arrangements do not effectively address cross code & strategic issues**
- **Prioritisation of mod proposals desirable – links to self governance**
- **Mixed views for move to increased self governance**
 - impact on smaller players? Less inclusive/accessible regime? Costly process?
 - Or, reduce Ofgem role where unanimous support for code mod
- **Several respondents argued that:**
 - no fundamental change is necessary – only incremental change is warranted
 - Change should be accompanied by cost benefit analysis
- **Feedback received on other issues - e.g. transparency of Authority decisions**

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Initial observations...

- **Charging methodologies + alignment of code objectives:**
 - Sufficient support to **include within review**
- **Support for convergence in procedures and modification rules:**
 - identify best features and **encourage convergence**
 - **industry lead approach?**
- **Divergence of Ofgem and industry view on quality of analysis...**
 - **...BUT still a major issue for Ofgem**
 - solutions may lie both with **industry and Ofgem**
- **Key question - whether to initiate more fundamental change:**
 - Address **fragmentation issues** (particularly in electricity)?
 - **Too many code administrators?**
 - Better **cost/quality incentives** on code administrators?

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