

**ofgem** Promoting choice and value  
for all gas and electricity customers

# Review of industry code governance

28 February 2008

**Mark Feather**  
*Director, Industry Codes & Licensing*

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

# 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?

2

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

# 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

3

---

---

---

---

---

---

---

---




---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### 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**

5

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### Comparison of analysis – BSC/UNC

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

6

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### 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

7

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### 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

8

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### 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**

9

---

---

---

---

---

---

---

---

**ofgem** Promoting choice and value  
for all gas and electricity customers

### 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?

10

---

---

---

---

---

---

---

---

**ofgem**

Promoting choice and value  
for all gas and electricity customers

---

---

---

---

---

---

---

---