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Dear

Convergence and simplification of code modification processes

As you are aware, on 30 June we published the Authority's conclusions on the scope of the industry codes governance review. This document sets out proposals for an overhaul of the codes regime and a significant programme of consultation across a number of work-strands. As part of the work on reducing fragmentation and complexity, we stated that we would establish an Ofgem chaired working group, with participation from code administrators and other interested parties.

The purpose of this letter is to invite your participation in this group and to seek your availability for the first proposed meeting of the group, scheduled for Thursday 28 August. We would also welcome comment on the draft Terms of Reference attached to this letter.

We are aware that tripartite meetings have taken place in the past between the chairs or secretaries of the UNC, BSC and CUSC, albeit on an informal basis. We would like to build upon any lessons learned from these discussions and work towards identifying and establishing best practice in the codes governance processes, either from within the industry or comparable governance frameworks. In particular, one of the themes which runs through the governance review is the need through reform of the governance arrangements to make the codes modification process more accessible to smaller parties and consumers.

We are proposing that a key deliverable for the group is the preparation of an initial draft report by January 2009 which considers the issues outlined in the terms of reference and explores, amongst other things, opportunities to identify best practice and promote convergence as well as opportunities to make the code arrangements much more accessible to smaller parties and consumers. We envisage that the draft report would be presented to Sarah Harrison, Managing Director of Corporate Affairs in January 2009 and would then be consulted on with industry participants and other interested parties, prior to being finalised in the spring of 2009.

In order to obtain a diverse view on codes governance issues we will be seeking to encourage a broad input into this workgroup rather than limit it to administrators, by inviting other members from a cross section of electricity and gas sector participants.

We also consider that the discussions of the working group would, initially at least, be best kept at a relatively high level rather than looking at the detailed drafting of any given modification rule. We would therefore welcome your views on whether existing governance

workgroups or their equivalent under each code could have a complementary role to play in feeding in to, or dealing with issues identified by, the working group.

For the first meeting, we would welcome your ideas on the issues you consider that the group should cover in its initial draft report in view of the terms of reference.

We would also note that a separate work-strand will be taken forward by Ofgem to consider the small participant initiatives that were set out in our June 2008 document outlining the scope of the codes governance review. The initiatives that were outlined in this document included introducing industry based funding to assist small participants in engaging in the codes modification process, as well as requirements on the code administrators to consider the needs of smaller participants in administering the codes modification process.

Whilst these will initiatives will be consulted upon separately by Ofgem under the "Role of Code Administrators" work-strand we would nevertheless welcome the views of group members on these measures.

Yours sincerely



Mark Feather
Director, Industry Codes and Licensing

Draft Terms of Reference Code Administrators' Working Group

Purpose

The purpose of this group is to explore, identify and progress opportunities for:

- making the code modification process more accessible, usable and transparent for all parties including consumers and smaller market participants; and
- encouraging best practice and, where appropriate, the simplification and convergence of code modification processes.

Background

Ofgem is concerned that the complexity and sheer number of industry codes governance arrangements may be prohibiting fuller participation of certain parties, particularly small companies, new entrants and consumers. We are also concerned that the resources required to initially propose, then progress, a modification through the various governance mechanisms may be stifling changes which would otherwise bring benefits to the wider industry and ultimately consumers.

Scope and Deliverables

The group is asked to produce by January 2009 an initial draft report setting out its findings in respect of the following:

1. To what extent do the current modification rules adhere to the principles set out in Ofgem November 2007 open letter?
2. How does small party/consumer participation vary across the codes?
3. What aspects of the modification procedures do small participants/consumers find to be a particular burden?
4. How can the code modification arrangements be made more transparent and accessible to smaller parties and consumers?
5. Do small parties/consumers consider that enough assistance is available to them in participating in code modification processes?
6. What role does the code administrator play in developing the proposal? Should this role be strengthened to assist smaller parties and consumers in developing proposals?
7. What aspects of the modification procedures of each code work well? What aspects do not work well?
8. In what areas could the modifications procedures appropriately be simplified and/or aligned in line to achieve best practice?

Limits

The group is not at this stage asked to review the funding arrangements for the code governance arrangements.

Composition

The Review group will comprise the following:

Ofgem (Chair)	(To be confirmed)
Ofgem (Secretary)	(To be confirmed)
BSC Chair/Secretary	(To be confirmed)
UNC Chair/Secretary	(To be confirmed)
CUSC Chair/Secretary	(To be confirmed)
(Other Codes) Chair/Secretary	(To be confirmed)
Small Party Representative	(To be confirmed)
Consumer Representative	(To be confirmed)
Industry stakeholder representative	(To be confirmed)
Industry stakeholder representative	(To be confirmed)
Industry stakeholder representative	(To be confirmed)
Industry stakeholder representative	(To be confirmed)

Resources

- Meetings will be held at Ofgem's offices at Millbank, London
- Ofgem will provide secretariat support to the group in terms of meeting organisation and minute taking.
- The preparation of the draft and final reports is to be undertaken by group members.

Information sources

- Review of industry code governance – scope of the review, June 2008
- The Brattle Group Report on Industry Code Governance
- The UNC Modification Rules
- The BSC Modification Rules
- The CUSC Modification Rules

Timetable

The draft report should be published and presented to Ofgem in January 2009. It is proposed that industry participants and other interested parties will be consulted on the report and its conclusions. A final report would then be prepared in spring 2009 although the subsequent timetable may be determined by the findings of the draft report.

Meetings will initially be scheduled on a monthly basis, but may be varied with the consensus of the group.