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Dear Mark

### **Code Governance Review: Charging Methodology Governance Options**

Many thanks for the opportunity to respond to this important consultation on the code governance of charging methodologies.

Scottish Renewables is the renewable energy trade association for Scotland and supports the interests of nearly 250 members many of which are working in the renewable electricity sector.

This response has been drafted following consultation with the Scottish Renewables' membership. You can find out more about Scottish Renewables by visiting our website at [www.scottishrenewables.com](http://www.scottishrenewables.com).

Ofgem may be aware that Scottish Renewables is a co-sponsor, with the Scottish Government, ScottishPower and Scottish & Southern Energy, of a recently submitted National Grid consultation on a change to transmission charging (GBECM17).

To have this proposed charging modification considered required a huge amount of lobbying effort over a number of years by the Scottish renewables industry and the Scottish Government. On the one hand it shows that industry can promote change under the current regime but on the other it requires an enormous effort to get it on the table. We believe that the reality is that industry, on any practical basis, does not have an appropriate opportunity to influence charging methodologies.

Therefore, Scottish Renewables has been arguing for some time that there should be a change to the way distribution and transmission charges are governed so that industry can have an opportunity to influence the way that charges are devised and implemented.

We welcome the initiative to consider Code Governance by Ofgem and we hope to play a full part in future deliberations.

This response will make the case for a preferred option for reforming governance of network charging and consider the supplementary points you have made.<sup>1</sup>

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<sup>1</sup>On a practical note: Ofgem issues consultation papers in pdf format with a level of software protection which denies the reader the opportunity to copy and paste any of the content. It would be helpful to trade bodies like ours which have to engage with a large membership if we are able to copy and paste from the pdf. At the very least



Scottish Renewables believes that given the level of disquiet – which shows no sign of abating - among Scottish generators about transmission and distribution charging in Scotland that there should be an opportunity to make the case to industry, and other institutions, to reform charging methodologies and seek enduring trading arrangements.

As I mentioned above we do not believe that this option is currently realistically available. We agree with your assessment in the Open Letter from January of last year when you said that “...existing code arrangements are too complex and inaccessible” to smaller players and that the time is right to consider whether “there are changes that can be made to simplify these arrangements and reduce unnecessary regulatory burdens”.

Therefore we are pleased that Ofgem continues to recognise the benefits that may emerge from the kind of reforms it has discussed in this latest consultation paper.

### **Options**

The bullet points below describe some principles which we believe should be considered when concluding on the best of the four options.

- There needs to be a clear and demonstrable improvement from the status quo;
- That decision making will be timely;
- That the process is transparent;
- That only serious modifications are considered;
- That there is an opportunity for industry to ‘appeal’ Ofgem decisions
- That the impacts on other codes and/ or charging methods are considered ‘in the round’;
- That conclusions from this exercise support other initiatives with an interest in charging including DPCR5, the structure of charges project and the Transmission Access Review;
- That the interests of transmission and distribution operators are properly considered; and,
- Whether it deals efficiently with embedded generation that interfaces with the transmission network through GSPs.

In our comments a year ago, following the publication of your open letter, we made the following point about code governance generally:

“Effectively the codes operate in a number of silos and we believe that despite Ofgem having the authority to take a broader view to take into account wider energy policy goals, such as sustainability, it does not generally do so (the Open Letter concedes that this may be the case). The renewable electricity industry sees few signs that this ‘broader view’ is hard wired into the way it discharges its responsibility to manage network governance.”

We went on to recommend that Ofgem:

“Explore with all stakeholders proposals for an independent administrator to govern charging methodologies with applicable objectives consistent with wider energy policy objectives.”

After much consideration Scottish Renewables believes that National Grid’s interest in investing in, and operating, the grid means that it should, in actual fact, retain a role in administering the charging methodologies but that the industry must have the opportunity to bring forward modifications to those methodologies.

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Ofgem should consider publishing the list of questions in a format that can be copied. This would make responding to specific questions posed by Ofgem a lot easier. You will note that Scottish Renewables has declined the opportunity to respond to all of the questions in this discussion paper.

However, where assessments of impacts are made by National Grid it is vital that National Grid considers the interests of all users of the transmission network, especially distributed generators that interface with the transmission network through grid supply points.

Ofgem also asks about charging models for distribution and Scottish Renewables notes that it is considering taking this issue to the Competition Commission because the Distribution Network Operators have thus far been unable agree on a common distribution charging model.

The principle of industry being able to modify the distribution charging model is important and we support this strongly but unfortunately it would be premature to conclude on the most appropriate of the four Ofgem options until this matter is resolved.

However the principle of co-ordination across both transmission and distribution models, and the various codes that manage their use, is vital if the renewables industry is to benefit from the opportunity to modify them.

Given the above principles and subsequent commentary **we would recommend that option three – *Industry Code Governance*** - is taken further by Ofgem as it will better balance the interests of transmission owners and generators, allow co-ordination across the different codes and is most likely the easiest option to implement quickly.

### **Potential Risk Mitigation Measures**

In addition Ofgem expresses concern that a change that allows industry to bring forward amendment proposals may lead to a high volume of proposals which may prove difficult to manage and cause unhelpful levels of uncertainty in the industry.

Scottish Renewables sympathises with this concern but we wonder about the 'evidence base' for that concern. If one looks at other codes, like the CUSC, which encourages modifications, is it the view of Ofgem and National Grid that the volume of work is unmanageable and that proposals, when they come forward, cause significant uncertainty to investors? We do not believe that it is.

We also believe that given the effort to take a proposal through the current regime, serious proposals are more likely to be brought forward and where there are vexatious initiatives that these would fall fairly quickly given the peer review process.

We feel our preferred option for code change (see above) would be well placed to ensure only serious proposals are taken forward. Indeed in our original comments last year we stated:

“This management role would include a rapid ‘quality gate check’ on all consultation and impact assessment documents before publication and send back for redraft if necessary”

Therefore Scottish Renewables does not believe there should be any restrictions to introducing amendment proposals over and above that which would normally pertain to amending codes (such as being a licence holder, party to a particular code, etc).

Needless to say if you would benefit from clarification on any of the points made above then please do not hesitate to contact me here at Scottish Renewables.

Yours sincerely

**Jason Ormiston**  
Chief Executive  
Scottish Renewables