



Industry participants, customers and
other interested parties

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

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Dear Colleague,

Open letter - next steps: Potential Significant Code Reviews (SCRs)

In August we issued an open letter consultation¹ on the issues which we considered could appropriately be addressed through the Significant Code Review (SCR) process. Following consideration of responses to that consultation and our recent acceptance of modifications introducing SCR provisions into the Uniform Network Code (UNC)², the Connection and Use of System Code (CUSC)³ and the Balancing and Settlement Code (BSC)⁴, I am writing to provide a brief summary of our conclusions from the SCR consultation and set out our intended way forward.

We received 22 responses⁵ in total, one of which was marked as confidential. We have summarised the key points from the responses in the table provided at Annex 1.

Next steps

After considering the responses received, we intend to progress with a SCR on gas security of supply but do not currently intend to do so for electricity cash-out or the smart metering impact on wider industry processes.

Gas Security of Supply

The gas security of supply SCR will be launched in the week commencing 10 January 2011 with the publication of a Launch Statement and an Initial Consultation paper. The launch statement will set out the scope of the SCR, the reasons for using the SCR process, the form of engagement that we expect to use with stakeholders and an indicative timetable of our process. The Initial Consultation paper will provide detail about the issues that we have identified with the current arrangements and a range of potential options for tackling these issues.

The launch of the SCR will signal the commencement of a six week consultation period. During this period, we plan to hold a number of stakeholder events in order to present the content of our Initial Consultation paper and provide the opportunity for comment. These events are planned to comprise two stakeholder seminars open to all interested parties and

¹ The open letter is on the Ofgem website at:

http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/SCR%20open%20letter%20consultation_Aug10_final.pdf

² UNC324: www.ofgem.gov.uk/LICENSING/GASCODES/UNC/MODS/Documents1/UNC324D.pdf

³ CAP183: www.ofgem.gov.uk/LICENSING/ELECCODES/CUSC/AMEND/Documents1/CAP183D.pdf

⁴ P262: www.ofgem.gov.uk/LICENSING/ELECCODES/BSCODE/BSC/Documents1/P262D.pdf

⁵ The responses appear on our website at:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=336&refer=Licensing/IndCodes/CGR>

three workshops with attendance by invite only. The opening stakeholder seminar will be held on 18 January 2011. The deadline for responses to our consultation will be confirmed in the Launch Statement, but is anticipated to be in the week commencing 21 February 2011. The full programme of events can be found at Annex 2.

For more information about how to register for these events please contact Anna Barker on 020 7901 7186 or anna.barker@ofgem.gov.uk.

Electricity Cash-Out

We will not be launching any review of electricity cash-out until we have had the opportunity to consider the conclusions of the Government's review of electricity market arrangements⁶.

Smart metering impact on wider industry processes

Whilst we consider that a SCR which focuses on maximising the use of data obtained from smart meters and its implications for settlement may be appropriate, our decision on whether to launch a SCR will be considered alongside other priorities as part of the 2011/2012 Corporate Plan.

Project TransmiT

In September 2010, Ofgem formally launched the review as Project TransmiT through a call for evidence letter⁷. We are currently analysing the responses to our recent call for evidence consultation. Should we intend to proceed with a SCR as a result of considering the responses received, we would make our views known as part of the 2011/12 Corporate Plan.

If you would like to discuss the contents of this letter, please feel free to contact me on 020 7901 7458 or mark.cox@ofgem.gov.uk.

Yours faithfully

Mark Cox

Associate Partner, Industry Code and Licensing

⁶ For further information see the Department of Energy and Climate Change website at:

<http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx>

⁷ The letter appears at: <http://www.ofgem.gov.uk/Networks/Trans/PT/Pages/ProjectTransmiT.aspx>.

Annex 1

SCR candidate	Ofgem views on suitability	Respondent views on suitability
Electricity cash-out	<ul style="list-style-type: none"> We committed to reviewing cash-out 12 months after the implementation of BSC modification P217A (approved in Nov 2009) to understand the effects on cash-out We also identified further issues with current cash-out arrangements as a result of Project Discovery which may impact security of supply 	<ul style="list-style-type: none"> There was general support not to use the SCR process while DECC undertakes its own review of the electricity market DECC's review may identify broad fundamental issues, including the impact on cash-out, which can then be addressed through further changes to, for example, codes
Gas security of supply	<ul style="list-style-type: none"> We noted that further work is required on gas emergency cash out arrangements, changes to the role of the network emergency coordinator, and compensation arrangements for value of lost load for firm customers who are disconnected We could also explore further potential reforms of gas cash-out outside of emergency arrangements 	<ul style="list-style-type: none"> There was broad support for a SCR to address concerns regarding the gas emergency arrangements and cash-out Some respondents argued that any SCR should have a wider scope beyond code changes to bring in all those parties with an interest in gas emergencies, e.g. DECC, HSE
Smart metering impact on wider industry processes	<ul style="list-style-type: none"> The roll out of smart meters places pressure on certain industry processes, in particular settlement arrangements, which could be reviewed Running a SCR in parallel with the Smart Metering Implementation Programme could identify code changes which benefit both the industry and customers and secure wider environmental benefits 	<ul style="list-style-type: none"> There was broad support for a SCR to address cross-code impacts of smart metering roll out The scope of any SCR should avoid duplicating work undertaken by the Smart Metering Implementation Programme and align with it instead. It should also clearly define the boundaries for any potential code changes
Review of transmission charging arrangements	<ul style="list-style-type: none"> We did not formally consult on the review as a possible SCR but indicated that it could be managed through a SCR process 	<ul style="list-style-type: none"> Those who commented were in general support for a SCR to manage the review and any code changes

Annex 2

Event	Scope	Date	Time
Consultation Launch	<ul style="list-style-type: none">• Announced with Launch Statement and Initial Consultation paper	w/c 10 Jan	N/A
Opening stakeholder seminar	<ul style="list-style-type: none">• Open invite• Present issues and options• Q&A session	18 Jan	Afternoon
Workshop 1	<ul style="list-style-type: none">• Attendees by invite• Discuss focussed topic	21 Jan	Morning
Workshop 2	<ul style="list-style-type: none">• Attendees by invite• Discuss focussed topic	28 Jan	Morning
Workshop 3	<ul style="list-style-type: none">• Attendees by invite• Discuss focussed topic	4 Feb	Morning
Closing stakeholder seminar	<ul style="list-style-type: none">• Open invite• Present conclusions and outcomes of consultation process• Open discussion	9 Feb	Afternoon
Deadline for responses	<ul style="list-style-type: none">• Deadline for response	w/c 21 Feb	N/A