

Dear Declan Tomany,

## **Industry Code Governance Review (CGR) – Second Phase**

British Gas fully supports the proposed second phase of the CGR. We consider that the first phase of the CGR has led to an improvement in the management of the Modification process by the affected code administrators.

We support the extension of the code administrator's code of practice and self-governance to incorporate the remaining codes and note that some of these codes will greatly benefit from the second phase of the CGR.

We believe that the current self-governance model could be improved by expanding to include any modifications that have a beneficial impact on competition and consumers.

We also note that the current code Panel constituents are not always representative of the industry that they are making decisions on behalf of. A more equitable allocation of seats on code Panels would result in a more representative decision making process and greater faith in self-governance.

We are supportive of the future goal of code consolidation as elucidated in Ofgem's 'Promoting Smarter Energy Markets' consultation and regard the uniformity brought about by the CGR to be an important stepping stone towards this goal.

Below we have provided our views on the questions posed in your consultation letter:

### **Has the requirement on code panels to provide rationale for their recommendations been effective in improving analysis to support code changes?**

Yes, the provision of a rationale has resulted in a notable improvement in the modification process, particularly for UNC modifications. We support this requirement being placed upon other Code panels.

### **Has the concept of 'critical friend' been effectively embraced by the Code Administrators (i.e. an obligation to assist interested parties, particularly smaller participants/new entrants and consumer groups)?**

Yes, the knowledge and expertise of the Code Administrators reduces time wasted, delivers better quality proposals and supports smaller parties. As a larger participant, we are unable to comment on the assistance provided to smaller parties / new entrants but we have witnessed the critical friend activities of code administrators first hand, and consider this to be an improvement on previous practice.

**Do you support the Code Administration Code of Practice being implemented under all industry codes, to aid convergence and transparency in code governance processes?**

Yes, we consider that convergence is vital as a stepping stone towards the code consolidation that Ofgem has proposed in its 'Promoting Smarter Energy Markets' consultation. We strongly support the future merger and creation of a single dual fuel retail code, based upon the Smart Energy Code, and alignment between codes before then will be important in ensuring an efficient implementation of the 'retail code'.

We also consider that transparency and consistency across all codes provides clarity on the change process and makes it easier for new entrants and smaller participants to engage in the code governance process.

The discrepancy between change processes results in decreased efficiency. The DCUSA does not have the concept of a draft modification and this can result in the raising of modifications that have not been fully developed. The code administrator's code of practice (CACoP) has a principle of establishing a 'pre-modification process' and extending the CACoP to cover the DCUSA would resolve this issue.

We further note that there is often a requirement for modifications to the UNC and iGT UNC to align and this is not possible at present as there is a longer governance process under the iGT UNC. Consistency across all codes would also resolve this disparity.

Code Panel representation may sit outside of the scope of the CGR but is particularly pertinent to establishing a robust and decentralised change process where industry will have greater faith in self-governance. Case in point is the UNC Panel where the six shippers that represent 99% of end users are only afforded two seats out of eleven. This cannot be classified as representative of the industry that will be affected by modifications to the UNC.

We also support greater voice for end users on Code Panels through consumer representatives. However, we wish to clarify that this only applies to consumer bodies that do not have other commercial interests.

**Is the self governance criteria introduced by the CGR appropriate and has the implementation of self governance been effectively achieved in BSC, CUSC and UNC?**

It is appropriate for any modifications that do not have a significant impact on consumers and competition to proceed down a self-governance route. However, if a modification will be beneficial to consumers and/or competition, and has the support of the industry, it seems inefficient to require approval from Ofgem as this merely slows down the implementation of a change that Ofgem is likely to support. It would seem prudent for Ofgem to allow such changes to proceed as self-governance modifications.

We consider that self-governance has been effectively implemented in the BSC, UNC and CUSC and that this has led to a significant improvement in the efficiency of the code governance process for these codes.

**Do you consider that introducing or increasing self governance in the codes would be beneficial?**

Yes, we consider that the iGT UNC in particular would benefit greatly as many of the modifications raised would meet the criteria if self-governance was in place. This would increase the efficiency of the iGT UNC change process.

Some of the other codes already have a degree of self-governance in place and so the efficiency gains may be less or negligible. For example, only changes to a small portion of the MRA require Ofgem consent and so introduction of self-governance would not be appropriate here.

We recommend that each code be analysed individually to determine whether the introduction of self-governance would be beneficial and cost-effective.

**Has the SCR process met with your expectations thus far, in terms of frequency of SCRs, timings and process?**

The first SCR has met our expectations and we are pleased with how well it was publicised, the degree of stakeholder engagement and the engagement of senior Ofgem staff - which provided industry with certainty that the SCR had sufficient internal support.

We have some concerns around the length of time taken by the current SCR and Ofgem's pre-determination of a solution. However, we note that these concerns are specific to one SCR and may not be applicable to future SCRs.

We note that no SCR has been raised nor proposed that cuts across more than one industry code and we have concerns that, as this is untested, it may delay progress when a cross-code SCR is raised. We note that a cross-code SCR is likely to be needed for consequential changes to codes in the wake of smart

metering – eg expansion of the DCC to take on registration and code consolidation. As these changes will be time critical, a lengthy SCR would prove detrimental to industry reform.

**Do you consider that Ofgem’s guidance in respect of SCRs has been sufficiently clear and detailed?**

The guidance provided has been clear but we would like to see greater detail within it. It does not specify the level of stakeholder engagement that an SCR must go through – eg workshops and launch events. Though the current SCR has had sufficient engagement, the current guidance does not prevent Ofgem from significantly lowering the level of engagement in future SCRs. We consider that a set of minimum standards would be helpful in setting out expectations of the SCR process.

We are happy to discuss any of our comments further.

Yours Sincerely,

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