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Code Governance Workshop

Industry Codes and Licensing
22 July 2015

Further review of Industry Code Governance

Lesley Nugent / Andrew Lam

GB Gas and Electricity industry facing significant changes in coming years:

- Roll out of smart metering

- Low carbon transition

- EU Third Package, European Network Codes

CGR 1 (2007 – 2010) & CGR 2 (2012 – 2013)

- Significant Code Review (SCR)
- Code Administration Code of Practice and 'Critical Friend'
- Self-governance
- Charging methodology governance

- Review key CGR1&2 measures

- Ensure code governance arrangements are fit-for-purpose

- Improve effectiveness and efficiency in delivering code changes (especially large scale, complex, cross-code changes)

- improve access and engagement by smaller parties in industry code change processes

- Some overlap between CMA provisional findings on code governance and issues being explored here

- Our further review of code governance focused on the beneficial incremental changes that Ofgem and industry can make together

Format for today's workgroups

- Provide an overview of key messages from responses to open letter

- Invitation for further discussion

- Conversation on some initial thoughts for further changes to existing code governance arrangements

SCR

Self governance

Charging Methodologies

Code Administration

- Acknowledge improvements made but the pace of major change is still too slow.

- Mixed views around expanding Ofgem powers to direct timetables and draft modification proposals.
  - Concerns raised about retaining strong industry involvement to avoid unintended outcomes, and avoiding solutions that haven't been subject to thorough in-depth analysis
  - Criticism of limited level of Ofgem involvement in the process. Calls for greater active participation, particularly in respect of engagement with smaller parties

- There are opportunities to improve / expedite the change development process.

- General support for the improvements made through the implementation of CACoP

- Areas identified where further work could be done to support small suppliers

- Some calls for greater oversight of Panel compliance with CACoP – somewhat reflecting CMA's proposal for direct licensing of Code Administrators.

- Mixed views about expansion of Critical Friend role – need to balance costs of additional support vs benefits to smaller participants

- Wide support for the improvements SG has made on efficiency of the change process.

- Commentary that some panels perform better than others and steps should be taken to improve general uptake of SG across panels.

- Acknowledge benefits of bringing charging methodologies under umbrella of code governance arrangements.

- Questions raised about introducing mod windows and impact on flexibility, work flow and timing.

- Support for better industry coordination and transparency within existing industry managed process.

Further review of industry code governance

industrycodes@ofgem.gov.uk

Self-governance

Abid Sheikh

We asked:

for views on the effectiveness of the self governance arrangements across the different codes, and whether the self governance criteria remain appropriate

- Generally respondents feel that self-governance works well

- Some respondents noted that DCUSA has lower number of SG mods due to the number of charging mods – these are 'material' by default

- SG criteria are too subjective, making panels risk-averse in using SG route

- SG needs more time to 'bed in' for some codes

- More scope for using SG route if criteria are reviewed

- SG inappropriate for technical codes (Grid Code, Distribution Code)

- Apply SG more consistently across codes, eg no fast-track SG under DCUSA

- A 'consumer' code objective could help to determine how criteria are applied – may help identify 'material' impacts

- *Should the 'test' be different – ie panels to demonstrate why a mod should <u>not</u> be self governance (ie why it has material impact)?*
  - Appeal route to Ofgem remains if parties disagree
  - May help panels to send more mods down SG route
  - More charging mods could also be sent down SG route unless clear 'material' impact?

- *Should Panels/CAs develop own 'guidance', applied consistently across codes, in line with licensed SG criteria, to enhance use of SG route?*

Significant Code Review

Raymond Elliot

Seeking views on the current SCR process, whether there are changes that would enhance the process, or whether an alternative process may be appropriate e.g. to give us the ability to specify timetables and draft code modifications.

Do you consider the governance changes have been effective in improving the code governance, in particular the ability for large scale reform to be implemented...

- General support

- Industry acceptance that current process takes too long, possibly reflects the scale of the changes

- Duplication of process

- Some resistance to further Authority powers

- Support for industry involvement

- Is there way to avoid duplication of process eg development (and drafting) of mods within the Ofgem-led process?

- If so, what role should industry (including Panels and CAs) have to support delivery of effective code change?

- Timetables mentioned, does it take too long and how could we deliver change quicker?

What if we could direct the mod timetable?
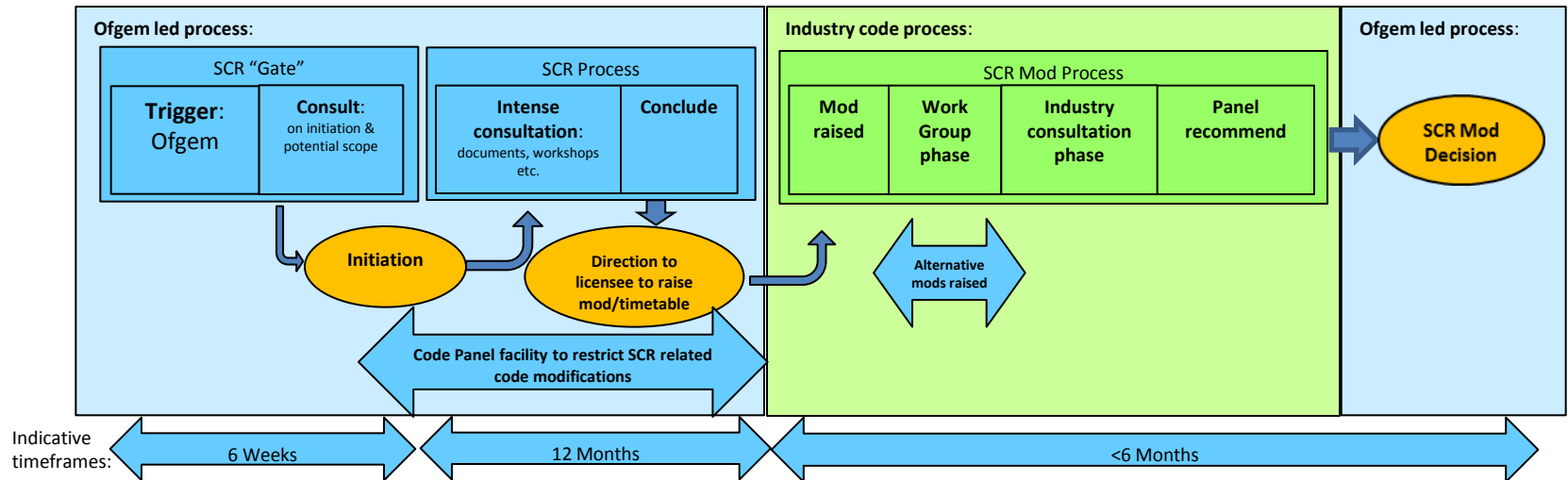
What if?
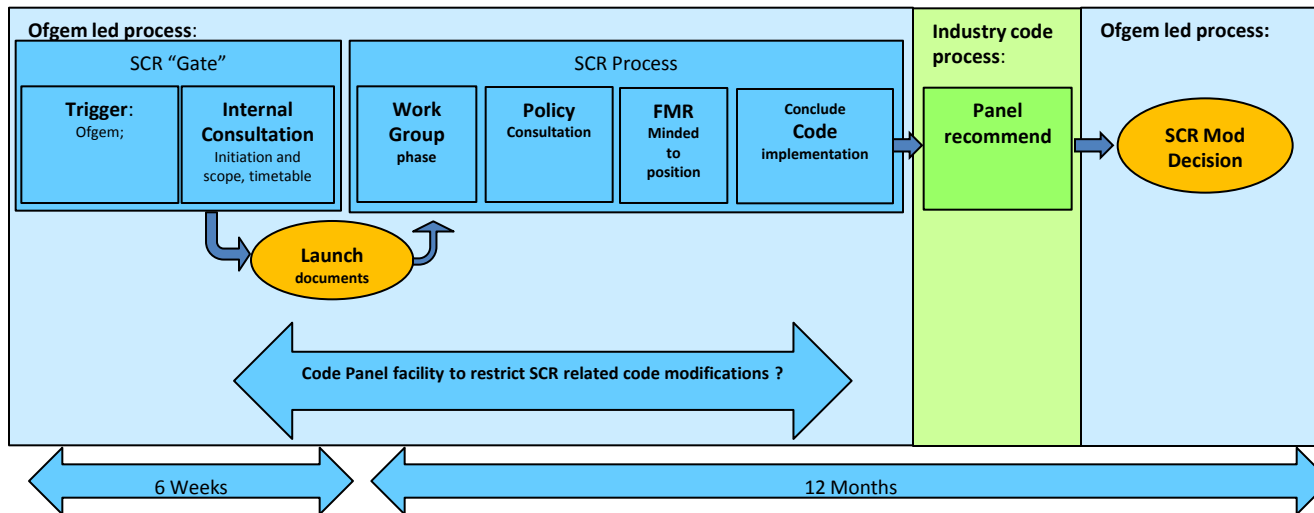
Charging Methodology

Abid Sheikh

We asked stakeholders:

whether the existing governance processes could be adapted to better manage and streamline the assessment of charging modifications, for example:

- *through enhanced and more efficiently managed pre-modification processes*

- *more effective 'packaging' of charging proposals, and/or the establishment of a clearer change cycle (eg modification 'windows'/set periods when modification proposals can be raised and assessed together)*

- Respondents questioned the need for a modification 'window'

- Some respondents can see benefit of more forward planning for processing charging mods

- Some respondents don't want a pre-mods process that negates proposer ownership or ability to raise mods formally – an 'optional' pre-mods process

- Resourcing is a concern, eg small party participation, whether sufficient industry expertise on workgroups

- Role of 'critical friend' to draft charging mod solutions - independent of licensees

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Initial thoughts…

- Support for an 'optional' pre-mods process recognised but could be improved to allow more parties to access and understand charging changes, eg greater role for CA, objective industry experts?

- Mods 'window(s)' could potentially allow a more focused and planned approach to assessing charging mods? – see next few slides

A single annual mod 'window'?

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- Allows any user or eligible party under relevant codes to raise a charging mod – CUSC, UNC, DCUSA [SEC?]

- For DCUSA, eg, window runs from 1 Jan to 31 March (for implementing mods with 15 months' notice (DCP178 decision))

- For UNC & CUSC, eg, window runs from 1 April to 30 June (for implementing mods from following 1 April)

- Following closure of window, Panel/CA develop plan for managing mods efficiently through mods process

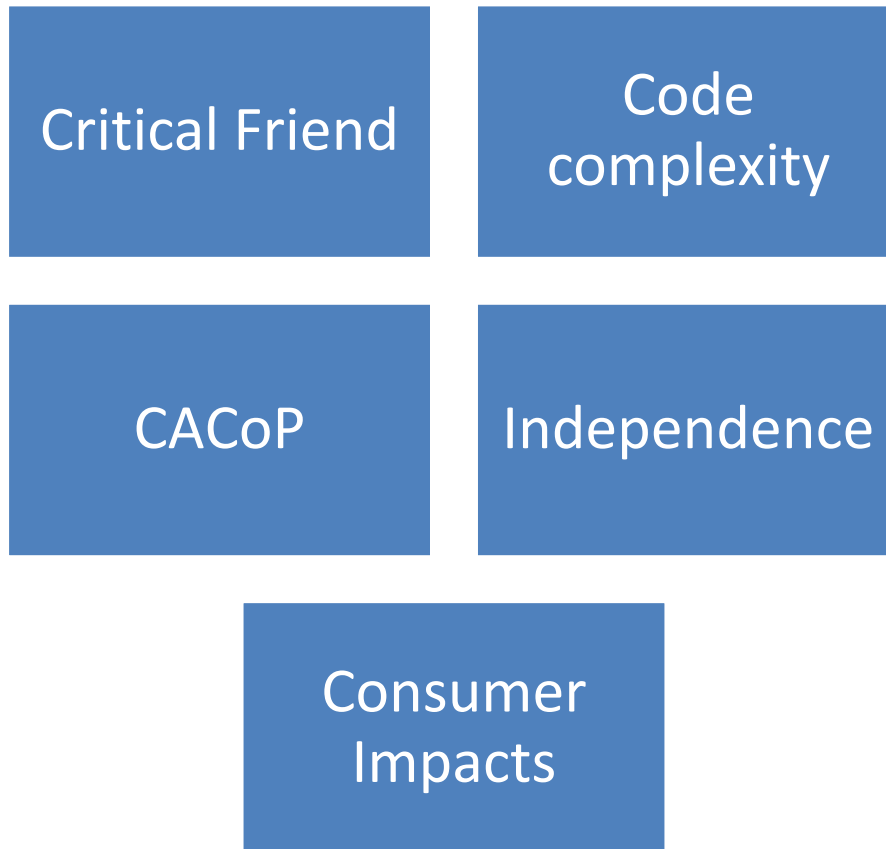| Benefits	Risks
Consistent with our CGR1 FPs and mod decisions	**Requires effective pre-mod process with user involvement**
Allows holistic and efficient delivery of mod solutions in parallel	Resourcing – can the Panel/WGs deliver solutions for timely implementation?
Retain benefits of 'open' governance - accessible, transparent, appeal routes	Not suitable for complex changes requiring longer assessment

Bi-annual mod 'windows'?

- Allows any user or eligible party under relevant codes to raise a charging mod – CUSC, UNC, DCUSA [SEC?]

- For DCUSA, eg, windows run from 1 June to 31 Aug and 1 Jan to 31 March (for implementing mods with 15 months' notice (DCP178 decision))

- For UNC/CUSC, eg, windows run from 1 Nov to 31 Dec/Jan and 1 April to 30 June for implementing mods from following 1 April)

- Following closure of 'windows', Panel/CA develop plan for managing mods efficiently through mods process

Benefits	Risks
Allows holistic and efficient delivery of mod solutions in parallel	**Requires effective pre-mod process with user involvement**
For more complex changes, first window encourages early raising of mods	Resourcing – can the Panel/WGs deliver solutions for timely implementation?
Retain benefits of 'open' governance - accessible, transparent, appeal routes	Relies on complex changes coming forward in first window

Code Administration

Rory P Edwards

Critical Friend

Code complexity

CACoP

Independence

Consumer Impacts

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Today's themes

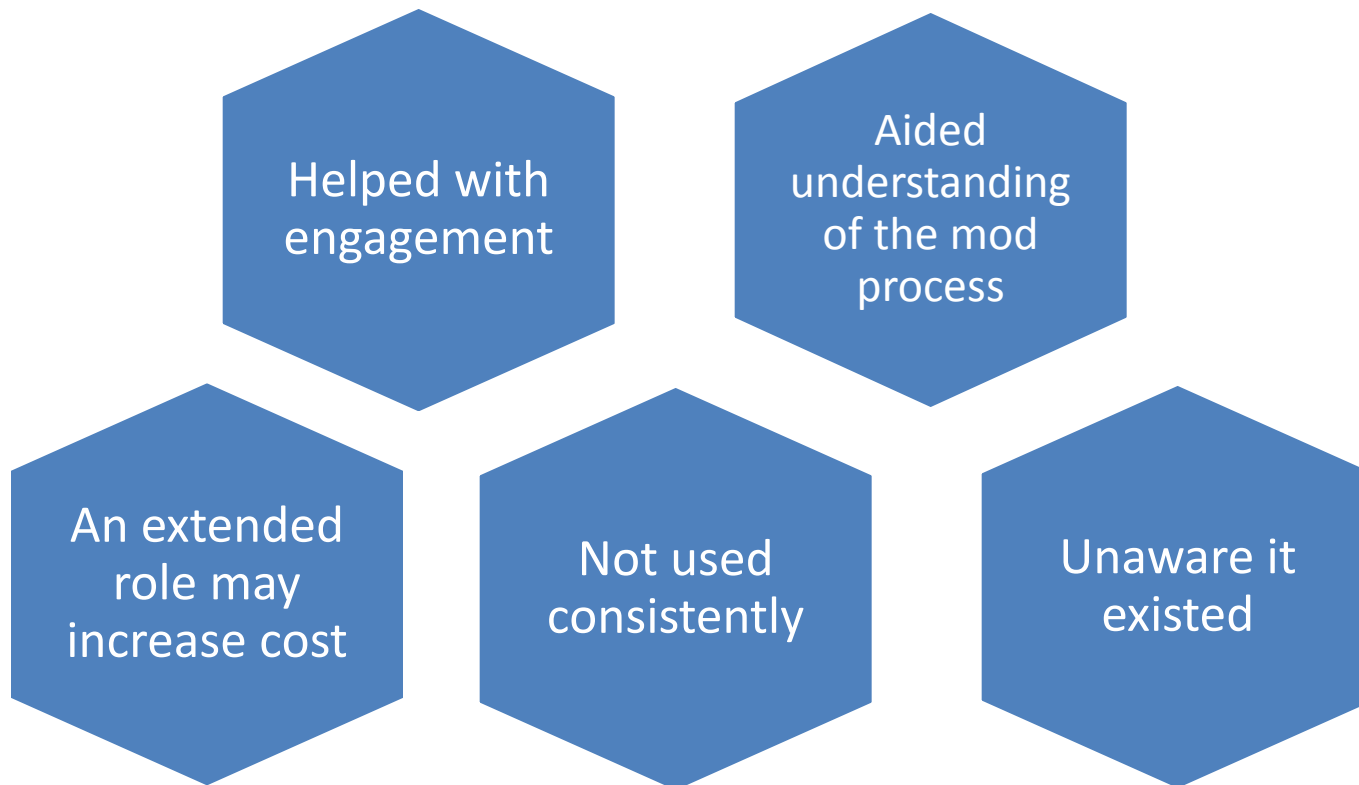| Standardisation | Ease of access | Promote engagement |

CGR final proposal's themes in 2010

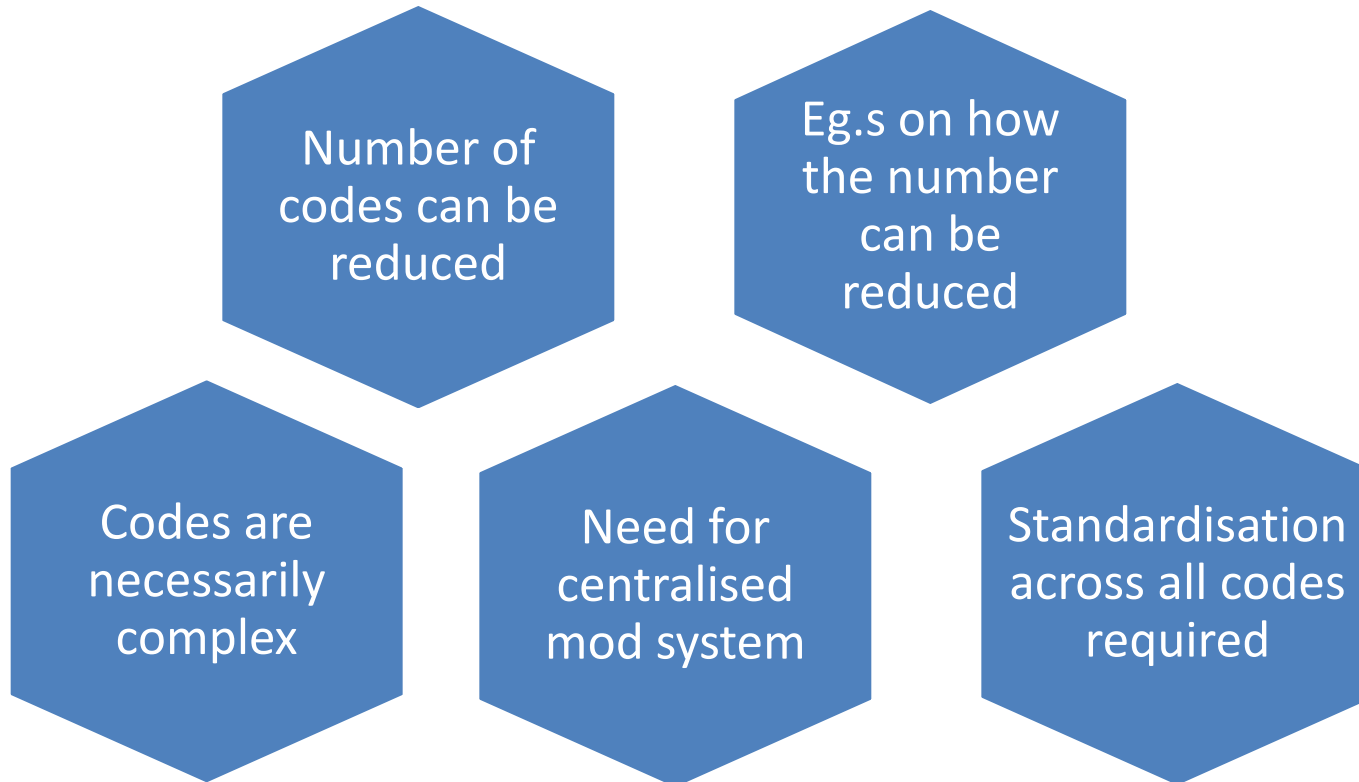| Increase consistency | Reduce unnecessary barriers and red tape | Simplify, increase transparency and accessibility |

Consultation responses themes

Helped with engagement

Aided understanding of the mod process

An extended role may increase cost

Not used consistently

Unaware it existed

Critical Friend

Initial thoughts…

- Keep the role as it currently stands

- It needs to be more visible. This could be achieved by:

  - Code Administrators having a description of the role more visible on their website (eg. Introducing it, highlighting the CACoP, having a visible contact number)

  - CAs should ensure this is the same across all codes

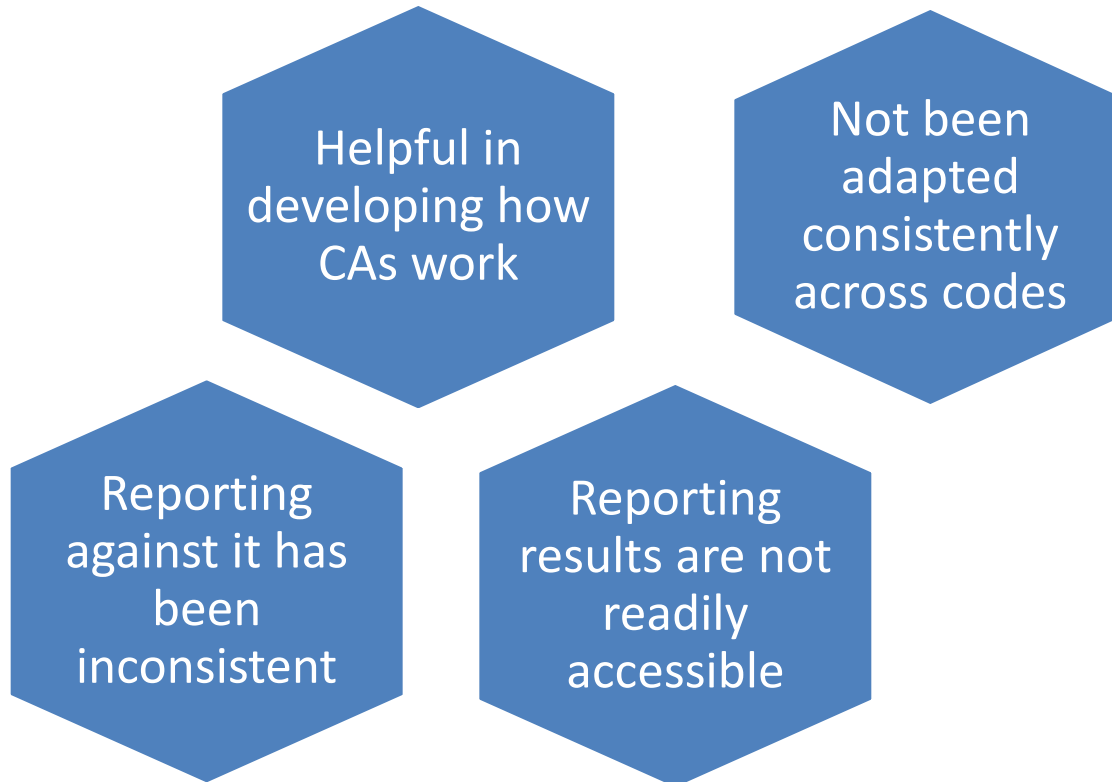 - We could include it more visibly on our website

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Consultation responses themes

Number of codes can be reduced

Eg.s on how the number can be reduced

Codes are necessarily complex

Need for centralised mod system

Standardisation across all codes required

Initial thoughts…

- Maintain the current number of codes

- Standardise the modification process across all codes (ie. How a modification is raised, goes to WG, goes to consultation, is voted on as well as the appeal process etc.)

- Mandate the use of a standard modification template which can be reviewed annually alongside the CACoP.

- CAs could produce a 'one-stop shop' website which contains all the relevant information for all code modifications (ie. Reports, WG minutes, etc.) as well as information about each code.
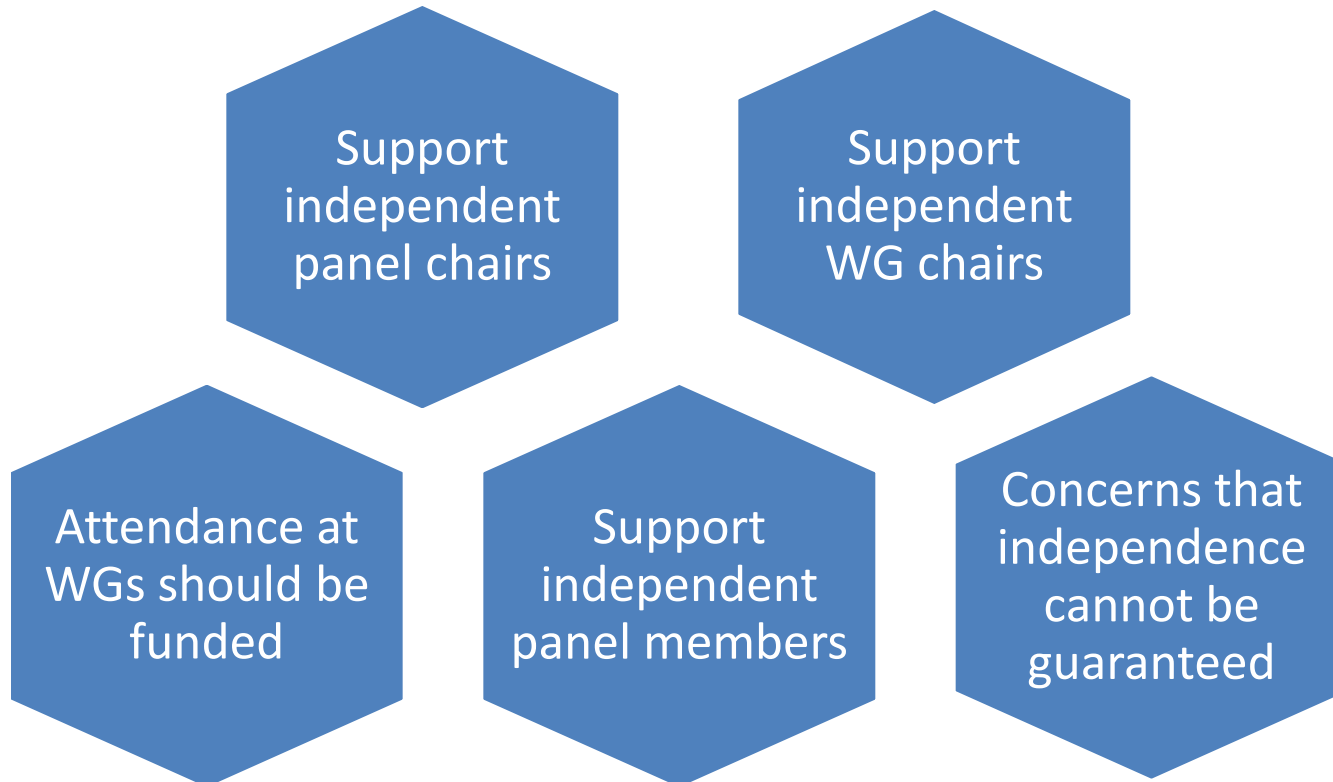
Consultation responses themes

Helpful in developing how CAs work

Not been adapted consistently across codes

Reporting against it has been inconsistent

Reporting results are not readily accessible

CACoP

Initial thoughts…

- Place the CACoP more visibly on the new proposed website

- Place the Code Administrators reports on this website as well

- We consider that the proposed new principle 13 may help to foster consistency across the codes as Code Administrators work together more regularly
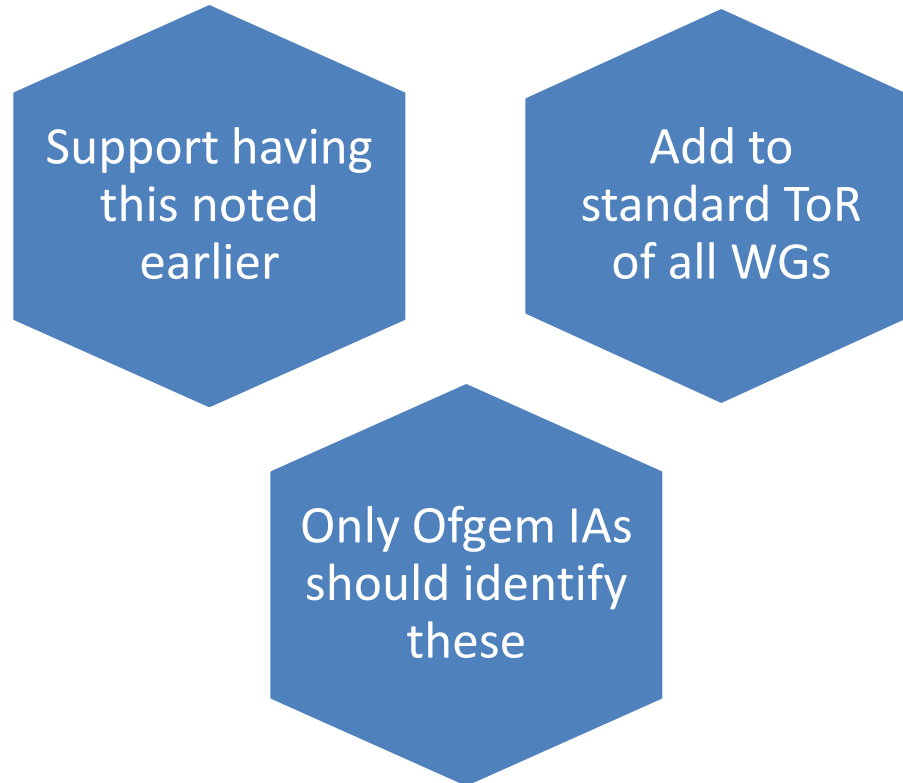
Consultation responses themes

Support independent panel chairs

Support independent WG chairs

Attendance at WGs should be funded

Support independent panel members

Concerns that independence cannot be guaranteed

Initial thoughts…

- Mandate independent chair and secretariat at all panels and WGs

- Require all panel members to be independent of their companies and constituencies

Consumer Impacts

Consultation responses themes

Support having this noted earlier

Add to standard ToR of all WGs

Only Ofgem IAs should identify these

Initial thoughts…

- Amend the proposed standard modification template to include a consumer impact section which should be filled in from the outset. This should be reviewed at every stage (ie. WG, consultation, panel discussion)

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.