

Energy Codes Review: Stakeholder Workshop

BEIS and Ofgem joint review

4 & 18 February 2019

Welcome and Introduction

*David Capper (Deputy Director -
Energy Security, Networks & Markets,
BEIS)*

Many in industry are critical of the existing system of codes and code governance, pointing out that it is:

CODE CONTENT

CODE GOVERNANCE



- **Slow** to take decisions, with even simple decisions taking many years.
- **Reactive** to existing problems, rather than forward-looking in preparing the energy system for future changes.
- **Overly complex**, with the entirety of the codes estimated to run to over 10,000 pages and weighing 50kg. This is a barrier to new entrants and to innovation.
- **Resource-intensive**, leading to a lack of representation from smaller and/or newer parties.
- **Lacking coordination** between the different code bodies.
- **Fragmented**, with a large number of code panels and bodies which provides for a complex institutional landscape, making it difficult to take forward systemic changes to the rules.

BEIS/Ofgem Terms of Reference for the Energy Codes Review, November 2018

Overview of Review and Scope

Lesley Nugent, Deputy Director – Head of Licensing Frameworks, Ofgem

- Objectives and scope of the review
- Review timetable
- Plan for the day/what we want to achieve

Project Scope and Questions (from the Review's Terms of Reference)



Making a positive difference
for energy consumers

To meet the objectives of the review we intend to address the following questions, defining the scope of the review:

- **Purpose of Codes:** We will consider whether a code system is still appropriate for all the areas of rules in the energy system, and whether there is scope to handle some elements of codes differently.
- **Content of Codes:** We will seek stakeholders' views on whether the content of codes is up-to-date, relevant and applicable, and whether and how it may be improved. We will explore the role that digital technology may play in this regard.
- **Governance:** We will assess the effectiveness of the current industry governance arrangements and any functions, institutions or roles that are missing. In light of that, we will consider alternative models of governance and whether these may be more effective than the status quo.
- **Process of providing strategic direction and making changes:** A key aim of the review is to develop a regulatory framework capable of delivering strategic, whole-system solutions in the interests of consumers. This means considering how we can make any new arrangements more forward-looking, rather than reactive. We will consider how this interacts with the governance of codes and the appropriate functions, roles, and responsibilities that support a new regulatory framework.
- **Transition:** We will give careful consideration to the process of moving from our current code environment to the desired end state and the most appropriate way to implement the proposed changes. We will need to develop a transition model which will ensure smooth running of markets, and minimise any transition costs.



Largely, there is a consensus on the problems with the existing system. Can we get a common view on what a better system would look like?

Criteria	What it means
1. Rules are clear and accessible	<ul style="list-style-type: none"> • The energy sector is, by its nature, complex. However, it should be easy for any market participant to: <ul style="list-style-type: none"> ○ Understand which rules apply to them; ○ Understand what the rules mean.
2. Regulatory framework facilitates timely change – both ad-hoc and systemic, and enables innovation	<ul style="list-style-type: none"> • Energy sector rules are important and complex, and change must be carefully considered. • At the same time, the unprecedented pace of change in the industry requires a regulatory framework that is: <ul style="list-style-type: none"> ○ Forward-looking, informed by, and in line with wider industry/Government strategic direction; ○ Agile and responsive to change, not bogged down by opposing commercial interests of market participants; ○ Streamlined and co-ordinated, to enable transition to a clean, smart, and consumer led energy system, in line with the Industrial and Clean Growth Strategies
3. Right expertise and incentives driving rule design and change process	<ul style="list-style-type: none"> • The regulatory framework needs to accommodate: <ul style="list-style-type: none"> ○ A much larger, and growing number of market participants; ○ An increasingly diverse mix of market participants, often without dedicated regulatory function resource to propose and take through rule change (e.g. non-traditional energy market participants - ‘prosumers’, local energy technology firms etc.)
4. Robust compliance monitoring and enforcement	<ul style="list-style-type: none"> • With more and more diverse market participants joining an extremely inter-dependent system, compliance becomes increasingly important.

Review timetable

- **February:** initial consultation through workshops and webinar
- **May:** expect to issue consultation on proposals
- There are clear interactions with other areas (e.g. the developing Retail Energy Code, Retail Market Review, Data Taskforce)
- Work on the Codes Review expected to feed into the Energy Strategy white paper.

Workshop Agenda

Time	Item
10.30	Registration
11.00	Welcome and introduction - <i>David Capper (Deputy Director - Energy Security, Networks & Markets, BEIS)</i>
11.15	Review Objectives, Scope & Timelines – <i>Lesley Nugent (Deputy Director – Head of Licensing Frameworks, Ofgem)</i>
11.30	<i>Session 1: Is the current framework of rules fit for purpose for the future energy system?</i>
12.30	Lunch
13.15	Breakout Group discussions
14:00	<i>Session 2: Are the current governance arrangements effective and are roles and responsibilities right?</i>
14.50	Breakout Group Discussions
15.50	<i>Session 3: sum up of day and next steps</i>

Session 1

Is the current framework of rules fit for purpose for the future energy system?

- Innovator perspective (CEPRO)
- Spectrum of options for change (BEIS)
- Code consolidation and simplification, performance assurance (Elexon, Electralink, National Grid SO)
- Case Study: Retail Energy Code (Ofgem)

Presentation 1

Damon Rand
(Community Energy Prospector, CEPRO)

Presentation 2

Alena Fielding (Head of Industry Governance, BEIS)

- Spectrum of options for reform

There is a spectrum of options for change. A solution will likely require a *'package'* of reforms

Process improvements to the status quo

Some of these improvements may already be in development/have been considered previously.

These options may have been raised by industry participants, but not implemented (e.g. because of resource constraints).

Existing structures, responsibilities/accountabilities are **maintained**. No change to the current model.

Substantial reform of the codes system

These options involve a **significant degree of structural change**, accountabilities, powers, etc. Includes significant change to the current model.

Taking a different approach – moving away from codes

These are the most radical solutions, resulting in **fundamental structural change**. Includes fundamental change to the current model.

Options involve significant changes to powers and responsibilities.

New bodies are introduced into the governance framework.

A package of reforms – some specific options

Process improvements to the status quo

Standardise/improve change processes?

- number of alternative proposals;
- 'time-out' arrangements for consideration of modifications.

Improve/restructure code modification panels?

- consider how new players and smaller market participants are represented –e.g. introduce a 'funded seat'
- look to replicate best practices across codes panels
- clarify responsibility for/consistency of legal advice/text.

Substantial reform of the codes system

Consolidate the 11 codes into 3? 1?

- Wholesale/Retail/Networks?
- Take content out of codes e.g. network charging

Replace Code Administrators with Code Managers (CMs), with significantly greater powers and responsibilities?

- Power to raise changes;
- Power to prioritise modifications;
- License CMs to ensure clarity of accountability and effective performance management;
- Include delivery functions?

Separate code administration function from code management – tender as a shared service?

Increase Ofgem powers?

- beyond binary approve/veto (suggest amendments);
- to raise rule changes.

Give a **single body responsibility** and powers for Code Management?

Taking a different approach – moving away from codes

Fundamental change to regulatory approach?

- Principle-based regulation (e.g. learning lessons from telecoms, food and other sectors);
- Risk-based approach (e.g. financial sector; regulatory burden proportionate to risk a party presents to market).

Introduce Strategic Oversight Function such as:

- Energy Security Board (Australian model)?

- Composed of CMs, Ofgem, BEIS representatives and independent advisors;
- Responsible for implementation of the energy strategy (can take on SCRs); provides whole of system oversight for energy security and reliability to drive better outcomes for consumers.

- System Architect/Governance Facilitator (Energy Catapult/IET)?

- Functions include those above, and also operational planning, investment planning, data (?)

Presentation 3

Elexon, Electralink, National Grid

Break-out session 1

Questions and issues to explore in this session

- **Purpose of codes** – *is the current approach still appropriate for all the areas of rules in the energy system (i.e. are there alternatives to the multi-lateral contracts?)*
- **Content of codes** – *is the content & structure of codes up-to-date, relevant and applicable, and whether and how it may be improved (including through use of technology); views on code consolidation.*
- **Non-traditional market participants** – *do the current arrangements work for new business models? how can we make sure the framework is accessible for all parties and future-proof it?*
- **Code governance** – *What could be the role of a Code Manager (e.g. should it include performance assurance function? Should they have a power to raise code modifications?)*

Session 2

Are the current governance arrangements effective, and are roles and responsibilities appropriate?

- Principle-based regulation – lessons from telecoms (Sian Jones)
- The case for strategic oversight (Energy Catapult)
- Risk-based approach to regulation (Gemserv)
- Innovation and energy industry codes: moving away from the self-regulation of codes (Catherine Mitchell, IGov)

Break-out session 2

Questions and issues to explore in this session

Landscape of rules – *does the current spread of rules & codes and various parties roles work (industry, Ofgem, BEIS)? is the present balance of industry self-governance/regulation appropriate?*

Fundamental change – *initial views on new approaches to regulatory framework: can principle-based/risk-based approach to regulation work in the energy sector?*

Strategic oversight and direction – *is this a missing function and who is best to fulfil it? Responsibilities/powers/accountabilities.*

Session 3

*Ben Eyre-White (Head of Networks, Systems
and Interconnection, BEIS)*

- Sum up of day and next steps