

BEIS / Ofgem Energy Code Review Workshop

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New Thinking For Energy



Overview

- Problems with current code process
- Recommendations
 - Priority: get rid of self-authored regulation

Problems with code governance 1:

Complexity and fragmentation

Source: <http://projects.exeter.ac.uk/igov/wp-content/uploads/2016/09/Lockwood-Innovation-and-the-governance-of-energy-industry-codes.pdf>

- **High fixed cost of compliance**
 - ~10,000 pages of documentation
 - Separate ICT requirements, process rules, reporting arrangements, credit and collateral requirements (higher for smaller, new entrants) for each code
 - Frequent code modifications
- **High fixed costs of governance participation**
 - Frequent meetings (150 panel/board meetings a year, plus workgroups)
 - In-depth technical knowledge required
 - Rules about raising mods, alternates + reporting formats differ across codes
- **Deterrence of new entry and risk of incumbent capture**

Problems with code governance 2: Structural dominance by incumbents

Source:

<http://projects.exeter.ac.uk/igov/wp-content/uploads/2016/09/Lockwood-Innovation-and-the-governance-of-energy-industry-codes.pdf>

Number of panel/board members by category, October 2015

| | MRA | BSC | DCUSA | CUSC | D Code | Grid code | SPAA | UNC | SEC |
|-----------------------|------------|----------------|------------|----------------|----------------|----------------|------------|------------|----------------|
| VI supplier-generator | 2 | 1 | 2 | 4 | 3 | 3 | 4 | 2 | 2 |
| Network company | 1 | 2 | 3 | 2 ^b | 6 | 10 | 2 | 5 | 2 |
| Other Code rep. | 1 | 0 | 0 | 0 | 0 | 2 ^c | 0 | 0 | 0 |
| Other supplier | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 2 |
| Other generator | 0 | 1 | 1 | 2 | 1 | 3 | 0 | 0 | 0 |
| Other network | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 |
| Independent | 0 | 8 ^a | 0 | 2 ^a | 3 ^a | 2 | 0 | 1 | 4 |
| Consumer rep. | 0 | 2 | 0 | 1 | 1 | 0 | 0 | 1 | 1 ^d |
| Total | 4 | 12 | 6 | 11 | 15 | 20 | 8 | 12 | 11 |
| % VI | 50% | 8% | 33% | 36% | 20% | 15% | 50% | 17% | 18% |
| % VI + network | 75% | 25% | 83% | 55% | 60% | 65% | 75% | 58% | 36% |
| Independent chair | No | Yes | No | Yes | No | No | No | Yes | No |

Problems with code governance 3:

Difficulties in coping with major change Source:

<http://projects.exeter.ac.uk/igov/wp-content/uploads/2016/09/Lockwood-Innovation-and-the-governance-of-energy-industry-codes.pdf>

- Codes governance system not well designed for non-incremental change, across multiple codes
 - e.g. DSR will require changes to DCUSA, D-Code, ER P2/6, BSC, CUSC)
- Code objectives focus on ensuring effective competition, cost-reflexivity and consistency with European regulation; no environmental objectives (except SEC)
- Contrast with government policy and Ofgem remit
- **Impossible to get panel recommendation for mod based directly on furthering interests of consumers and promoting sustainability**
 - e.g. CUSC mod CAP148 aimed at supporting renewable policy rejected

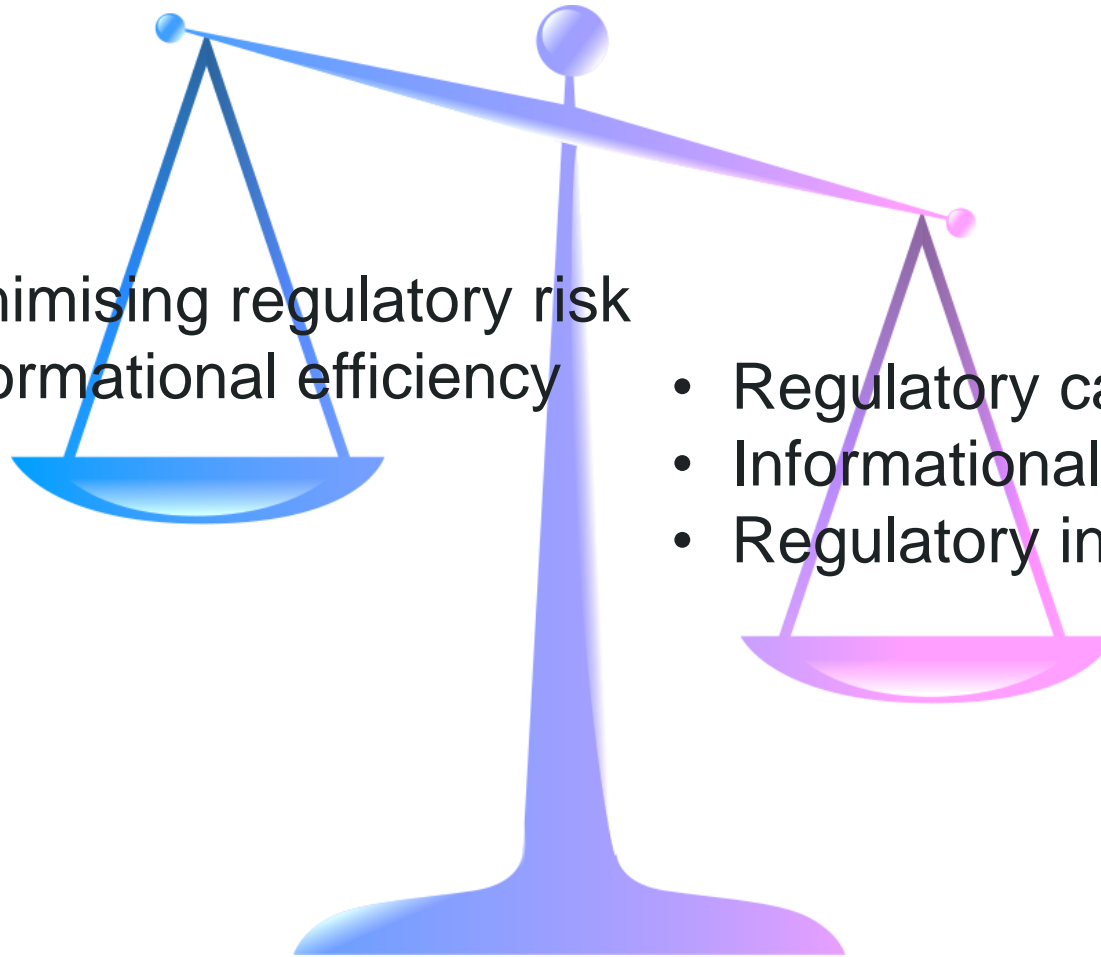
Codes and innovation

- Need for:
 - greater link between policy, regulation and codes
 - more simplicity
 - non-incremental changes in content across multiple codes
 - process that facilitates the participation of innovative new entrants and ideas; and rapid adaptation to social, economic, technical change

Balance of effects of self-authored regulation

- Minimising regulatory risk
- Informational efficiency

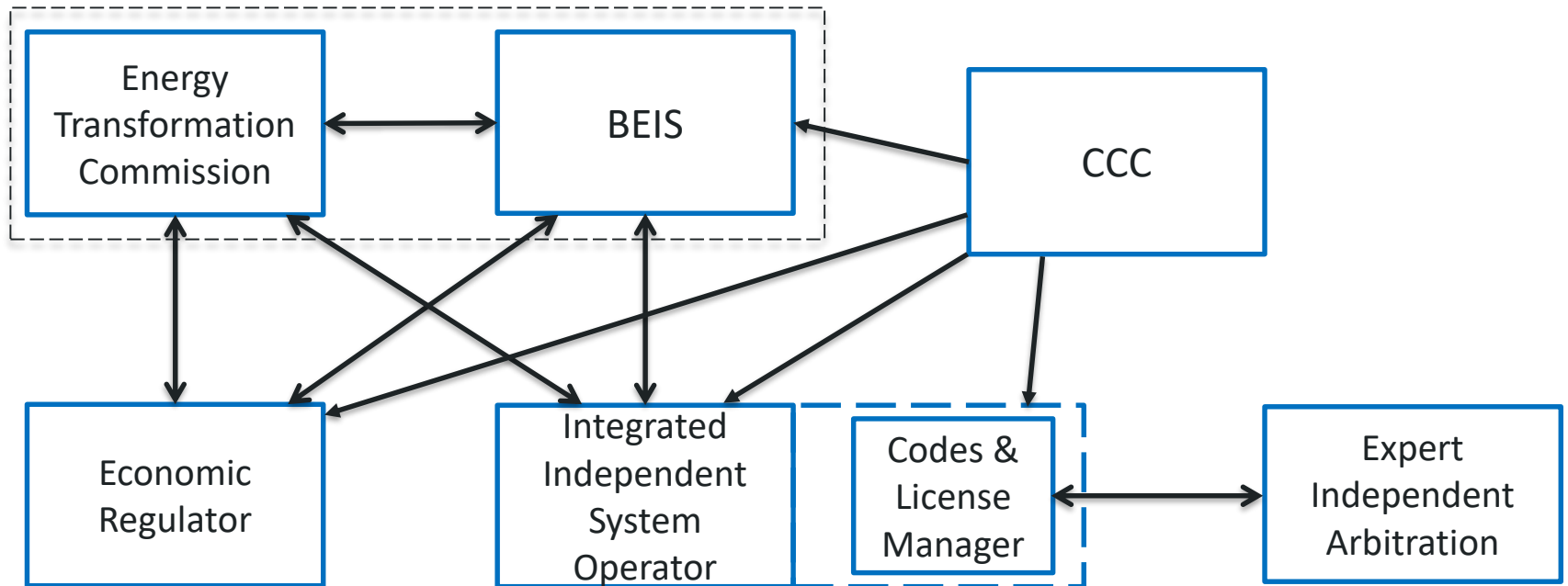
- Regulatory capture
- Informational capture
- Regulatory inertia



Code reform agenda

- End self-authored regulation
- Relocate code governance to a Public Code Manager
 - IGov argued for one; but more (?)
- Rule-based mandate with clear and transparent links to policy to contain regulatory risk
- Robust and transparent consultation and decision-making rules
- Retain robust right of appeal via CMA and courts

Codes in wider governance landscape



References

- IGov Primer: Energy Industry Codes and Licenses
<http://projects.exeter.ac.uk/igov/primer-energy-codes-and-licenses/>
- Thanks to Matthew Lockwood for some of the slides, taken from <http://projects.exeter.ac.uk/igov/wp-content/uploads/2016/09/Lockwood-Innovation-and-the-governance-of-energy-industry-codes.pdf>