

# Reforming the Energy Industry Codes: Stakeholder Workshop

BEIS and Ofgem joint review

September 2019

# Welcome and Introduction

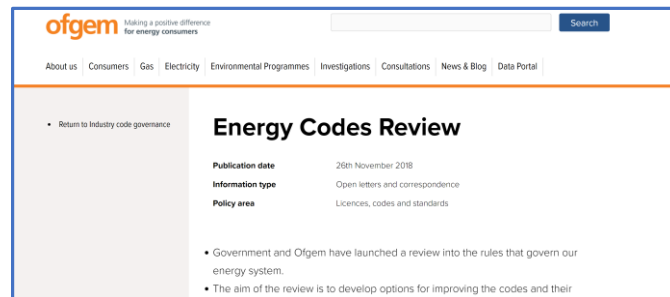
# Background to this Consultation

## SoS “After the Trilemma” Speech.



Regulation must be entrant- and innovation-friendly, whilst, of course, maintaining investor confidence... That means a reform of how rules are made. We need to find a solution that harnesses industry knowledge of the system... **So the government and Ofgem will launch a full review into industry codes and code governance**, and of course will be prepared to act to reinforce with legislation any changes that may be necessary...

### November 2018



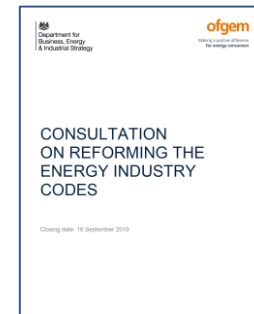
### Joint Ofgem & BEIS Review Launched

### Q1 2019



### Workshops held to engage stakeholders & industry

### Q3 2019



### Publication of Consultation

Open: 22<sup>nd</sup> July 2019  
Close: 16<sup>th</sup> September 2019

# Q1 Workshop Recap

## The Challenges

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

CODE CONTENT

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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

## Scope

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

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.

## Spectrum of Options

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.**

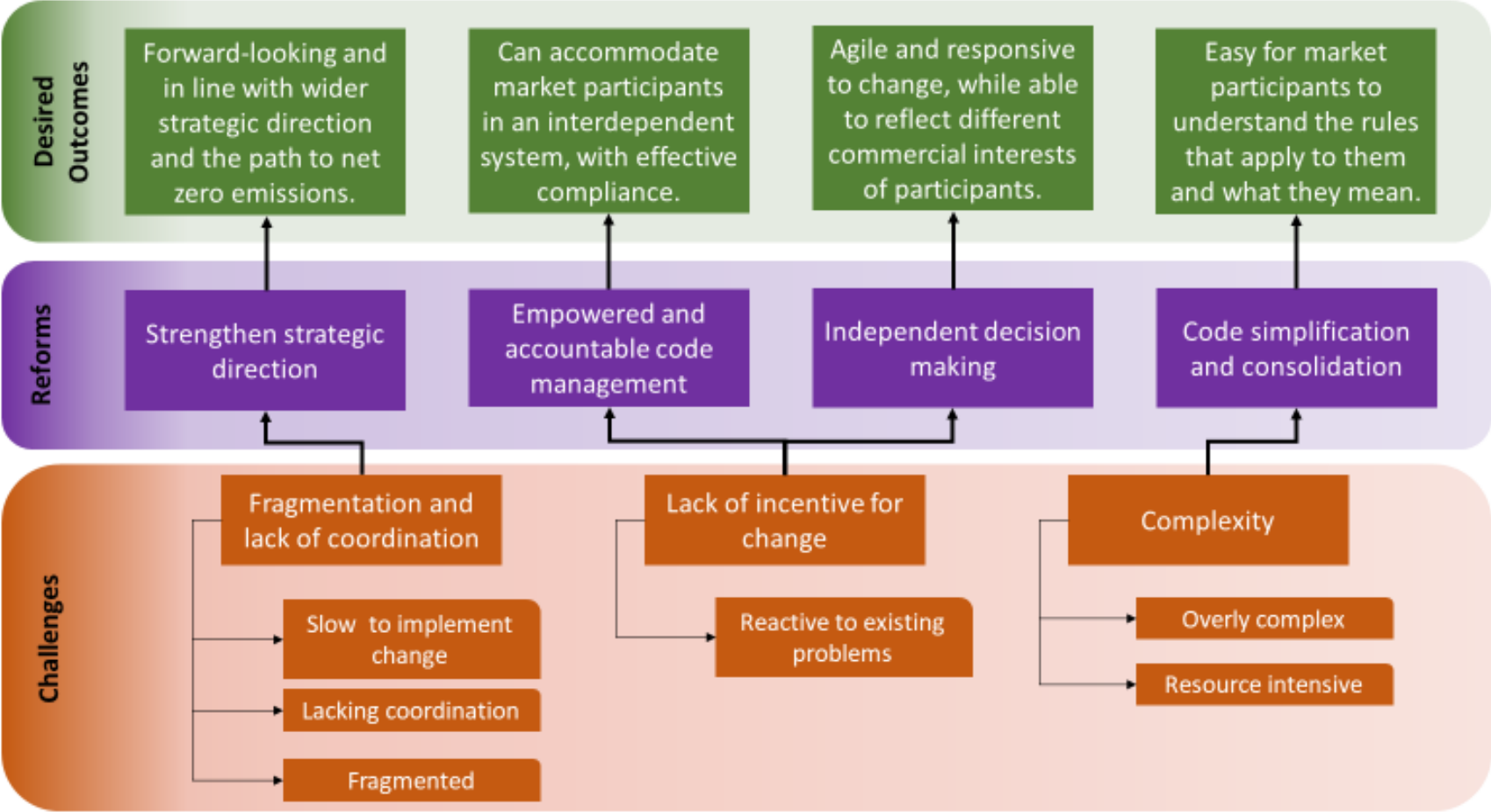
Taking a different approach – moving away from codes

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.

# Summary of Consultation



# Agenda

Time	Item
13.00	Welcome & Introduction
13.15	Presentation 1: Proposed New Institutional Framework
13.25	Table breakout discussion
13.50	Presentation 2: Strengthen Strategic Direction
14.00	Table breakout discussion
14.25	BREAK
14:40	Presentation 3: Empowered and Accountable Code Management & Independent Decision Making
14.50	Table breakout discussion
15.15	Panel Q & A
16.00	Close/Next Steps

# Proposed new institutional framework

# Overview

1. Current arrangements
2. Desired outcomes
3. Areas of proposed reform to code governance
4. Proposed governance models
5. Breakout session



# Current Arrangements

The industry codes are the contractual arrangements that underpin the operation of the gas and electricity markets.

The current arrangements have overall worked well over many years but with a changing energy sector we have identified challenges:

- Fragmentation and lack of co-ordination
  - No single organisation providing strategic direction
  - Changes can take time and there is a lack of ordination of code bodies
  - Number of codes and different governance makes it hard to take forward strategic change
  
- Lack of incentives for change
  - Industry-led – incentives not always aligned with consumers
  - Modifications often reactive rather than forward looking
  
- Complexity
  - Can be a barrier to new entrants and innovation
  - Can be resource intensive to engage with
  - Code bodies can have limited incentives or powers to monitor or ensure compliance

# Desired Outcomes

The rules governing the energy system need to adapt more quickly to enable the transition towards a more flexible energy system with net zero emissions, while minimising costs and protecting consumers.

Challenge	Proposed reform	Desired outcome
Fragmentation and lack of co-ordination	<b>1. Providing strategic direction</b>	<b>1. Forward looking</b> , informed by, and in line with wider industry / government strategic direction and the path to net zero emissions
Lack of incentive for change	<b>2. Empowered and accountable code management</b>  <b>3. Independent decision making</b>	<b>2. Can accommodate a large number of market participants</b> with effective compliance  <b>3. Agile and responsive to change</b> , while able to reflect the commercial interests of different market participants
Complexity	<b>4. Code simplification and consolidation</b>	<b>4. Easier for market participants</b> to understand the rules that apply to them and what they mean

# Areas of Proposed Reform

Four main areas of proposed reform to achieve the desired outcomes:

- 1. Providing strategic direction:** create a new function that is forward looking and is informed by Government's vision of the energy system.
- 2. Empowered and accountable code management:** create empowered code manager function that has the right expertise, resources and powers to oversee the change process, monitor compliance and decide on appropriate measures in the event of non-compliance.
- 3. Independent decision making:** rebalance decision making from industry to arrangements that are agile, responsive to change and work in the interests of existing and future consumers while continuing to draw on industry's input and expertise.
- 4. Code consolidation and simplification:** to improve accessibility; simplify and consolidate codes, removing unnecessary content and that codes are adaptive to a changing industry.

# Proposed Governance Models

**Parliament, Government or another appropriate body**  
Overall accountability for strategic body or integrated rule-making body

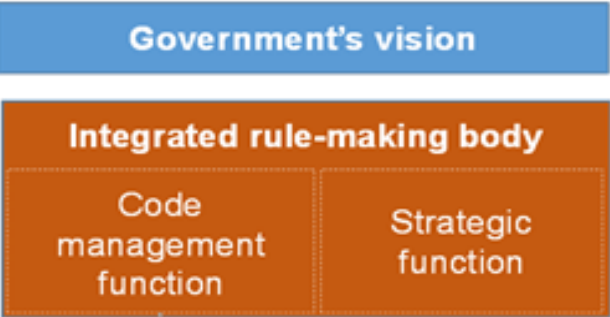
### Model 1: code managers and a strategic body



Monitors compliance with the codes and issues sanctions.

**Code parties**

### Model 2: integrated rule-making body



Monitors compliance with the codes. May issue sanctions.



# Breakout Session

1. Do you agree with the challenges identified?
2. Do you agree with our desired outcomes?
3. Do you agree with the proposed 4 areas of reform?
4. Which model do you consider best meets the outcomes identified?
5. Do you agree with the proposed changes to the role of code signatories and how can we maximise the input of industry stakeholders?

# Audience Poll

ofgem

Making a positive difference  
for energy consumers

Which Model would most effectively achieve the desired outcomes we have defined?

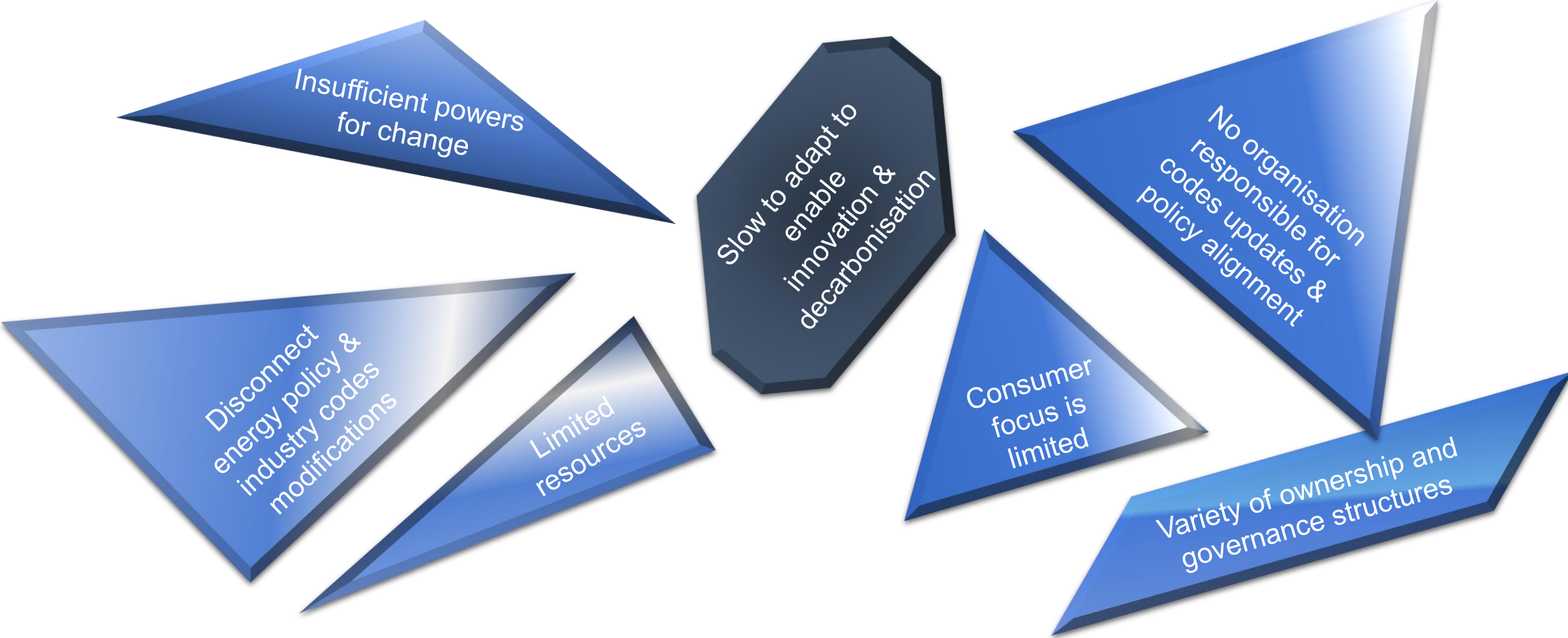
- Model 1
- Model 2
- Other

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# Strengthen Strategic Direction

# Current Situation





# Proposal & Options: A New Function

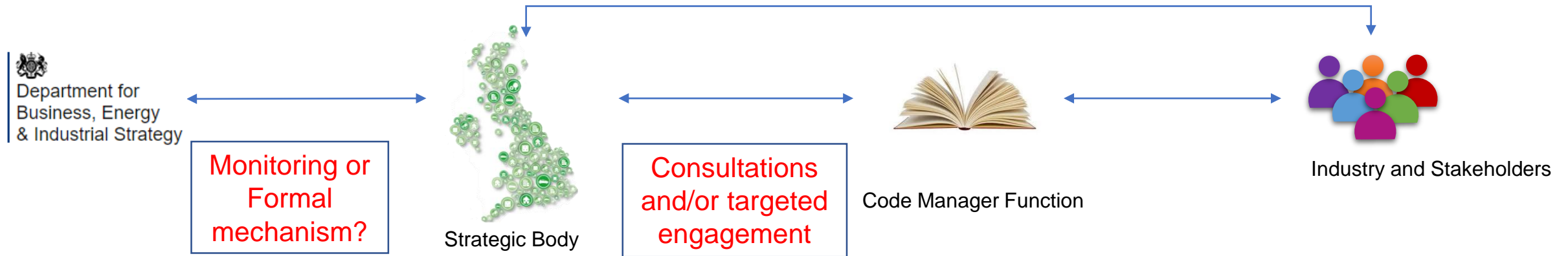
## Strategic Function

Steering change to deliver a smarter, more sustainable energy system that best protects consumer interests

Ensuring codes and code governance remain agile

Working with code manager function to unlock innovation

# Proposal & Options: How Could this Function Work?



Publications  
Energy Policy  
Announcements

Take into account  
Government vision  
Translate into a plan  
to develop codes  
framework

Work with Strategic  
Body  
Deliver changes in  
accordance with plans

Engage with and input  
expertise to strategic  
body and code  
management function  
on plans

# Proposal & Options: Where Could This New Function Sit?

- Credible incentives and powers
- Impartial
- Engaging with industry and stakeholders
- Appropriately reflecting views from Government, Ofgem, code managers and sector
- Sufficiently resourced, with appropriate skills and capabilities



# Breakout Session

1. Do you agree that a Strategic Function is currently missing?
  
2. What roles and responsibilities should the Strategic Function have?
  - Should the body have sole responsibility for setting strategic direction?
  - Do you agree with the responsibilities we proposed?
  - Are there any additional roles/responsibilities they should have?
  
3. How should industry and stakeholders feed into the process for change?

# Audience Poll

**ofgem**

Making a positive difference  
for energy consumers

Who is best placed to be the Strategic Body?

- Ofgem
- NG ESO
- Other

**slido**



# Empowered & Accountable Code Management and Independent Decision Making

# Overview



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1.Current situation

2.Consultation proposals, options and questions

3.Breakout session



Department for  
Business, Energy  
& Industrial Strategy

# Current Arrangements



## Code change process

Stage	Who
Raise code changes	Code signatories and Ofgem
Develop code changes	Code signatories
Recommend code changes for approval	Code signatories
Approve code changes	Code signatories and Ofgem for material mods

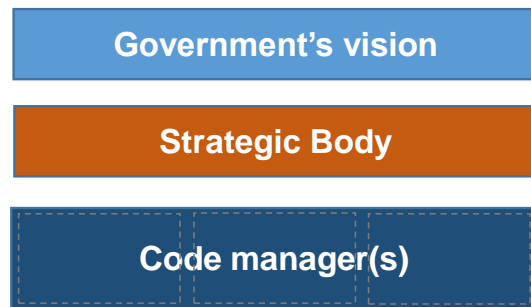


# Proposals, options and questions

**Parliament, Government or another appropriate body**

Overall accountability for strategic body or integrated rule-making body

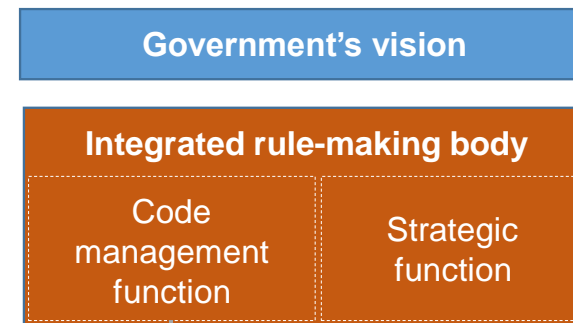
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**Code parties**

## Model 2: integrated rule-making body



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**Related IT systems**

# Proposals, options and questions

**Parliament, Government or another appropriate body**

Overall accountability for strategic body or integrated rule-making body

## Model 1: code managers and a strategic body

Government's vision

Strategic Body

Code manager(s)

Monitors compliance with the codes and issues sanctions.

Responsibilities  
Prioritise, raise, develop and approve code changes

Code parties

Codes

Related IT systems

## Model 2: integrated rule-making body

Government's vision

Integrated rule-making body

Code management function	Strategic function
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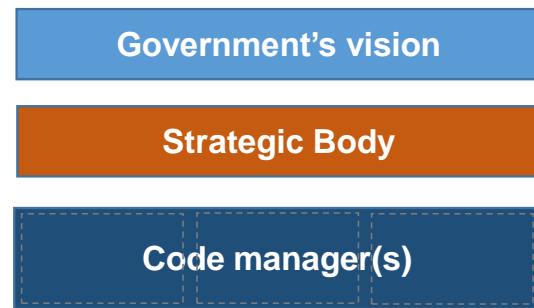
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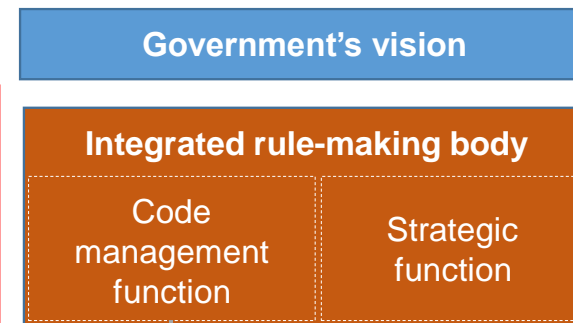
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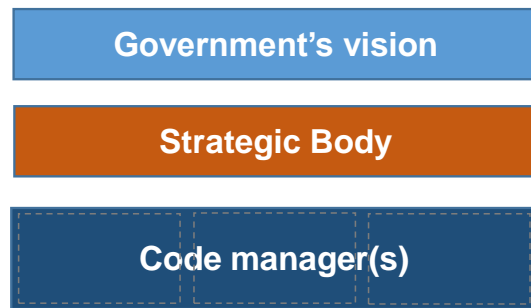
**Related IT systems**

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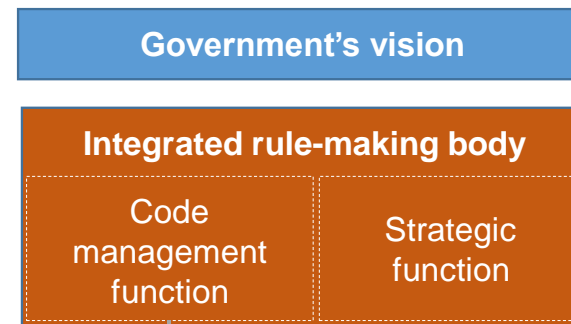
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End to end code and system managers?

**Codes**

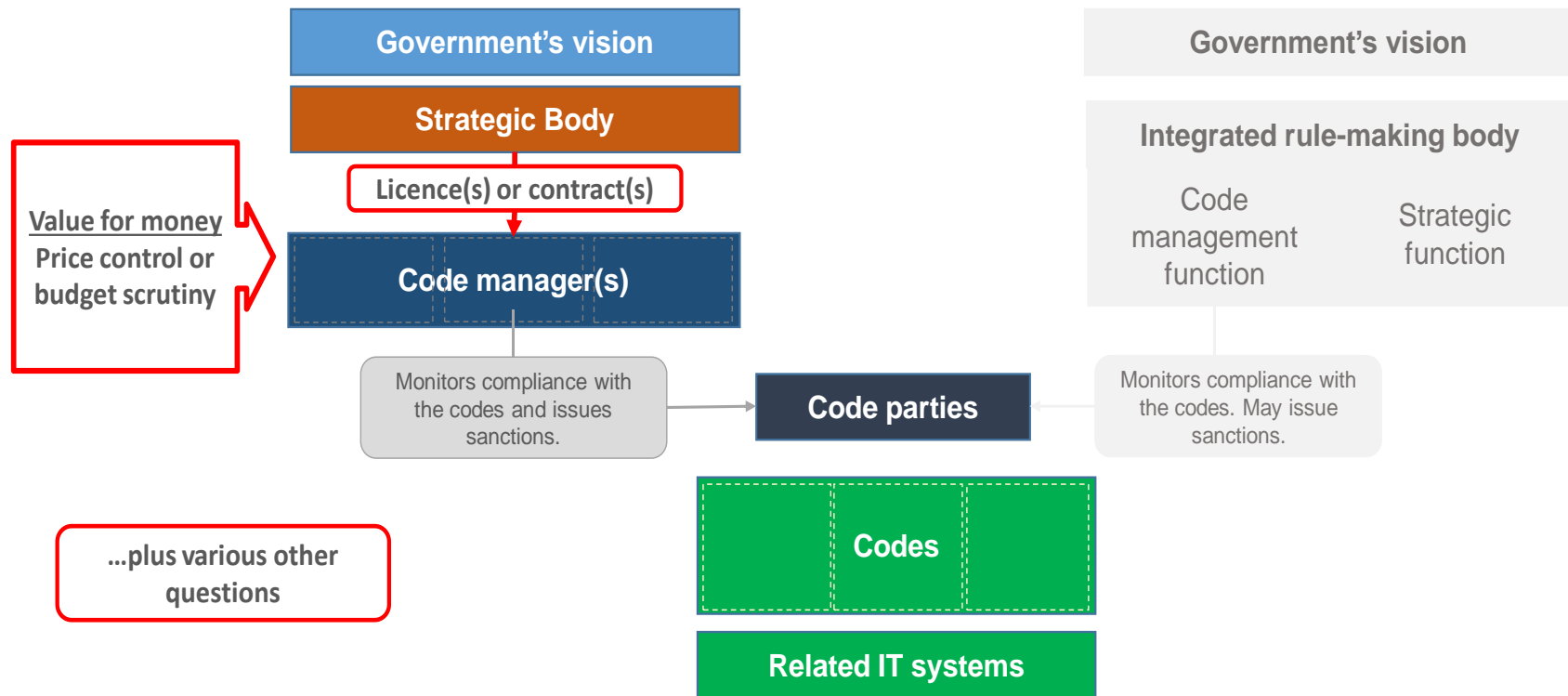
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# Proposals, options and questions

**Parliament, Government or another appropriate body**  
Overall accountability for strategic body or integrated rule-making body

## Model 1: code managers and a strategic body

## Model 2: integrated rule-making body



# Breakout Session

1. What roles and responsibilities should the code manager/code management function have?
2. How best to achieve end to end (code and system) change?
3. What is the most effective way to ensure the code manager function offers value for money (for example through price control or budget scrutiny)?
4. The proposal to re-balance the role and responsibilities of industry – how best to ensure industry expertise and experience are still captured?

# Audience Poll

ofgem

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for energy consumers

What's the most effective way to hold a code manager accountable (to the strategic body)?

- Licensing
- Contract
- Other

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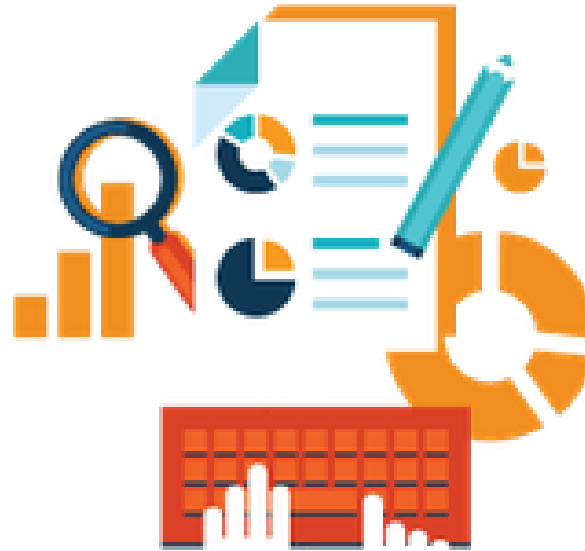
# Next Steps

## INFORM



Respond to our consultation to  
provide your views  
Closing Date: 16/09/19

## ANALYSE



Review evidence gathered from  
consultation process

## RESPOND



Publish consultation response  
and way forward



# THANK YOU

BEIS & Ofgem Code Reform Team

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