

## **Energy Code Review – Consultation Questions**

### **Introduction**

1. ENA represents the companies that operate and maintain the gas and electricity grid network in the UK and Ireland. Serving over 30 million customers, they are responsible for the transmission and distribution network of “wires and pipes” that keep our lights on, our homes warm and our businesses running.
2. Our energy networks are recognised worldwide for their strong track record of safely, reliably and securely providing the UK with the gas and electricity it needs in three key areas:

**Trusted performance** - The average gas customer will experience an unplanned interruption once every 140 years. For electricity customers, since 1990, there has been a 59% reduction in the number of customer interruptions, and an 84% reduction in length of customer interruptions<sup>1</sup>. The average GB premises experiences a power cut once every two years and the average length is now only 35 minutes<sup>1</sup>.

**Reduced costs and increased investment** - Network costs are now 17% lower than they were at the time of privatisation<sup>2</sup> and are projected to remain flat, and in some areas fall, into the next decade<sup>3</sup>. These costs are the same or cheaper than in other major economies. The UK's energy networks have attracted some £100bn of investment since 1990<sup>4</sup>. They are forecasted to invest £45bn between 2013 and 2023<sup>3</sup>.

**Delivering innovation** - Network companies have spent a total of £99mn across 928 projects through the Network Innovation Allowance, and supported over 1,400 innovation projects since 2004. Independent research carried out by Pöry has shown that innovation projects from the previous Low Carbon Networks Fund by local electricity Distribution Network Operators (DNOs) could deliver up to £1.7bn of benefits by 2031<sup>5</sup>.

### **Background**

**1. Do you agree with our four desired outcomes for the code governance landscape by the mid-2020s? Yes/No/Don't know. Please explain.**

**If you disagree, please explain what you consider the outcomes should be.**

#### **Providing strategic direction**

A central strategic body providing direction as to government energy policy would be beneficial to industry and customers alike; a consistent approach with a clear and open decision making process will be required.

Changes to Codes and code structure should consider industry RIIO ED2 challenges and Net Zero targets.

#### **Empowered and accountable code management**

Empowered and accountable code management will require the support and faith of industry and customers. The code management function must be shown to be listening to all parties

when developing codes and modifications and will need clear and simple communication processes.

The ability for industry to be able to propose and be involved with the approval process of modifications should be retained.

### Independent decision-making

Whilst independence can be seen to be separate from industry influence it is important to maintain that the codes are in place to guide and manage how the networks are operated – too much independence through separation could result in a loss of influence and engagement from the right parties at the correct time. Decisions and the process should be independent of vested interest but must also heed and be accountable to industry and customer requirements.

### Code simplification and consolidation

ENA agrees: the current Codes arrangement is complicated and can be seen as difficult to access and gather information from for new entrants into the market. We would welcome Code simplification and consolidation.

**2. Do you agree with the problems we've identified (in chapter 1 – Background – and in later chapters), and that they present a persuasive case for reform of the current framework for energy codes? Yes/No/Don't know. Please explain.**

### Fragmentation and lack of co-ordination

The current Code administration process is subject to the individual company approaches that have developed over many years. While co-ordination through CACoP is undertaken there is no overall centralised approach.

### Lack of incentive for change

We disagree that there is a lack of incentive to change by industry. The energy industry is a regulated sector that is required to operate within agreed regulatory frameworks and standard technical parameters in order to provide a secure and resilient supply. Any modifications must be undertaken in line with the business and technical requirements and as such require careful consideration to ensure networks and businesses are not compromised

### Complexity

The variance in approaches to Code management and modifications is unduly complex particularly for new entrants into the market and others not familiar with the process. A more centralised and consistent approach will aid understanding, however clarity of requirements and legal text must be retained in order to support future regulatory determinations

**3. Do you have additional evidence on the performance of the current framework?**

The performance of the individual codes within the current framework is reported through the Code Administrator Code of Practice Group via Ofgem metrics reporting.

**4. Do you agree with our proposed scope of reform? Yes/No/Don't know. Please explain. If not, which additional codes or systems do you think should be included/excluded?**

ENA agrees that all codes should be subject to the same review and that consolidation, if accepted, encompasses the full range of code applications and business and technical interests.

**5. Are there any codes or systems that we should only apply a limited set of reforms to? Yes/No/Don't know. Please explain.**

There are no additional codes we are aware of that should be included in this reform.

### **Vision & options**

**6. Do you agree that the four areas for reform are required? Please provide reasons for your position and evidence where possible.**

Please see other sections of this consultation response

**7. Do you agree with the two broad models outlined? Please provide reasons for your position and evidence where possible.**

Accepting that the status quo option has not been discussed in this consultation. ENA generally agrees with the models proposed:

Model 1 - a Code manager function and separate 'strategic body';

Model 2 - an 'Integrated Rule Making Body' (IRMB) (a combined code manager function and strategic body).

**8. Which model do you believe will best deliver on our desired outcomes? Please explain.**

We believe that Model 1 will best deliver the desired outcomes. A Code manager function and separate strategic body would provides separation between government and the code manager, and would facilitate open and auditable accountability between the parties.

**9. Do you agree with the changes to the role of code signatories we are proposing?**

While accepting the changes in the roles of code signatories we note that there is no input from Ofgem at any stage of the modification process. This raises concerns that modifications will not be connected with or reflected by the regulatory process and settlements which could disincentivise industry from implementing modifications in a timely manner or prior to the next regulatory period. As such we do not agree to the proposed role changes.

### **Providing strategic direction**

**10. Do you agree there is a missing strategic function for codes development in the energy sector and that introducing a strategic function with the responsibilities outlined in chapter 3 is the best way to address the lack of strategic direction? Yes/No/Don't know. Please explain.**

ENA agrees that there is a need for clear and consistent strategic guidance to feed into the code management function, but it should be noted that industry already liaises with government and regulator regularly and frequently in order to understand and communicate high level strategy.

### **Who is best placed to fulfil the strategic function and why?**

A Government body in conjunction with the regulator is best placed to fulfil the strategic function. This would facilitate flexible regulation and flexible adaptation of code modification.

**11. Do you agree with the objectives and responsibilities envisaged for the strategic function, and are there any additional objectives or responsibilities the strategic function should have?**

The strategic function should be responsible for setting the strategic direction for Codes, and steering significant changes to the codes. It should be responsible for ensuring codes and code governance remain agile and adapt as the sector transforms, including proactively identifying changes required to ensure a low cost, robust, effective energy system.

The strategic function should work with the code manager, industry and customers to promote mutually beneficial innovation.

**12. How may this new function potentially impact the roles and responsibilities of other parts of the framework? Do you foresee any unintended consequences?**

A clear and consistent line of communication must be maintained between the strategic body and the code manager in order to ensure correct prioritisation is given to modifications and that the views and responses given by industry and other stakeholders are incorporated.

**13. What are your views on how the strategic direction should be developed and implemented (including the option of establishing a strategy board to aid engagement)?**

However the strategic direction is delivered it is important that it remains accessible and responsive to the issues of industry and stakeholders – there cannot be an extended or overly bureaucratic process in requesting, developing or approving a modification

**14. Do you think that the scope of the strategic function should be limited to taking account of the Government's vision for the energy sector and translating it into a plan for the industry codes framework, or are there other areas it should address (for example, impact on vulnerable consumers)? Yes/No/Don't know. Please explain.**

In order to ensure all participants and stakeholders understand and can contribute to the wider energy landscape strategy the strategic function should consider all aspects of

government energy strategy and review it against the requirements of the energy industry in delivering it.

### **Empowered and accountable code management & independent decision making**

**15. Do you agree that in addition to the current responsibilities that code administrators have, that the code manager function should also have the following responsibilities?**

**Yes/No/Don't know. Please explain.**

**a. identifying, proposing and developing changes (analysis, legal drafting etc.), including understanding the impacts;**

Code modifications should be identified and supported by industry and customers. Identifying and proposing changes should only be undertaken by the code management function when changes are required as a result of modifications to another code or part of the same code.

**b. making decisions on some changes, or making recommendations to the strategic body; and**

We agree, but the decision making process must be clear, open and accountable.

**c. prioritising which changes are progressed.**

This should be the case only where prioritised changes are undertaken for the benefit of participants in the code modification

**16. What is the best way to ensure coherent end-to-end changes to the codes and related systems? For example, is it through having end-to-end code and system managers?**

The best way would be to ensure consistent communication between code manager(s), industry, customer and the strategic body

**17. Should the approach differ on a case-by case basis (i.e. depending on the code or system in question)? Yes/No/Don't know. Please explain.**

A consistent approach should be applied and maintained to all cases otherwise the previous lack of clarity of process will continue.

**18. Do you agree that the code manager function should be accountable to the strategic body and that this should be via a licence or contract? Yes/No/Don't know. Please explain.**

ENA agrees: the code manager must be held accountable for delivery of the strategic view via a contract to ensure fair, consistent and adequate allocation of resources and approach to modifying codes. The process and code manager should be auditable.

**19. Are there more effective ways that the code manager function's accountability to the strategic body could be enshrined other than in a licence or contract? Please explain.**

We believe the accountability and relationship should be formalised and auditable

**20. Do you agree that we should not consider further a model whereby the code manager function is accountable to industry? Yes/No/Don't know. Please explain.**

Industry expects and trusts that the options presented accurately reflect the outputs from the workshops and consultation with stakeholders. We accept that both models developed show no accountability to industry, however, we expect that, whichever model is selected, industry will still have influence in how the codes are managed.

**21. Do you have views on whether the code manager function should be appointed following a competitive tender process or other competition? Yes/No/Don't know. Please explain.**

An assessment of cost to manage the code structure and process should naturally be part of the selection process but we would also expect to see consideration of resource commitment, understanding of code function and management capability of both modification process and stakeholder involvement.

**22. Do you think the code manager function should be established by the strategic body creating a body or bodies? Yes/No/Don't know. Please explain. If the code managers were established in this way, would we need to consider any alternative approaches to funding or accountability? Yes/No/Don't know. Please explain.**

The strategic body should be responsible for establishing the code manager function based who should be chosen on merit, understanding and resource availability.

Any revised code structure or code management process should not impose additional costs upon either the customer or the energy industry, to do so could have negative financial impacts upon the ability of the customer to make compliant applications and connections and upon industry in engaging and advising stakeholders.

**23. In terms of establishing/choosing the code manager function, do you agree that we should not consider further:**

**a. requiring an existing licensee to become the code manager; and/or**

**b. requiring a licensee (or group of licensees) to create the code manager?**

**Yes/No/Don't know. Please explain.**

The code manager function would not necessarily have to be a present incumbent but must be able to demonstrate the capabilities outlined in point 21 above.

**24. What would be the most effective way to ensure the code manager function offers value for money (for example, through price controls or budget scrutiny)? More**



**broadly, what is the right incentive framework to place on the code manager function? Please explain.**

The code manager should be incentivised to manage the codes to the benefit of UKPLC. The performance of the code manager function should be linked to improvements in the performance of the network and reduction of costs to both industry and customers. The number of modifications completed should not be used as an incentive metric as this could only encourage the undertaking of quick, simple and potentially less effective or unnecessary modifications.

**25. Are there any factors that:**

**a. would stop parties (including code administrators) from becoming a code manager?**

**b. should prevent parties from becoming a code manager (e.g. do you agree that licensees should not be able to exercise control of the code managers)?**

A key factor to consider and manage would be a situation in which inadequate resources to manage multiple code strategies and modifications were present.

**26. How should the code manager function be funded (for example through licence fees or by parties to the code(s))?**

The code management process should be funded by all participants in the structure and process but this should not impose additional costs above those currently incurred upon either the customer or the energy industry. We request further information on how the cost recovery will be managed.

### **Code simplification & consolidation**

**27. Are there any quick wins that could be realised in terms of code consolidation and simplification?**

Given the scale of the task it is important that code consolidation and simplification should be carefully planned and implemented, making sure there are no conflicts of interest or information. Quick-wins should only be sought if there is a benefit to the longer term change plan.

**28. How many codes would best deliver on the outcomes we are seeking under these reforms?**

Industry would support the grouping of current codes into the 4 headlines proposed – dual-fuel wholesale, retail and network although the option of splitting the network code into separate Gas and Electricity Codes should be considered. The individual codes could then be consolidated and simplified within each group.

**29. Which option (one code manager versus multiple) would best deliver on the outcomes we are seeking under these reforms?**

One code manager would provide consistency of approach and a central point of contact for modification requests, guidance, disputes etc., however multiple code managers would

spread the risk such that no one company had influence or the whole of the knowledge base. Industry preference is for multiple code managers specialising in each area.

**30. Which of our consolidation options would best deliver the outcomes we are seeking to achieve? Please provide evidence for your examples.**

Option B: consolidated by industry activity type – dual fuel, retail, wholesale and networks (Gas and Electricity). This would allow focus of expertise and industry knowledge at the right level in both consolidating and managing the codes.

**31. Do you agree that the codes should be digitalised? Yes/No/Don't know. Please explain.**

Given how society is increasingly geared to a digital platform and that the latest versions of the codes can be made available as soon as they have been agreed and authorised it is essential that the codes are digitalised.

**Monitoring and compliance**

**32. What role should industry have in monitoring code compliance or making decisions on measures needed to address any identified non-compliance?**

Industry would prefer to continue to be self-monitoring in terms of compliance but would expect the code manager to have ultimate responsibility especially in cases where the participant is not experienced in compliance management.

**33. Which of the two models we propose would better facilitate effective monitoring and compliance arrangements? Please explain.**

Model 1 would provide a broader range of expertise and allow comparison in order to ensure consistency in the approach to monitoring and enforcing compliance.

**34. With Model 2 - integrated rule-making body - should the IRMB have responsibility for imposing measures (where a party is non-compliant with the code) or should this be for another organisation? Please explain. *Please note this question only applies in respect of Model 2 (integrated rule-making body).***

It is understood that the code manager could be responsible for monitoring compliance, in which case it should fall to the code manager to implement / impose measures to address non-compliance, allowing the IRMB function to continue to focus on strategy.