VATTENFALL

Introduction

Vattenfall welcomes the opportunity to respond to the BEIS consultation on Reforming the Energy Industry Codes. Vattenfall Networks is an Ofgem regulated Independent Distribution Network Operator (IDNO) meaning we can own, operate and maintain electrical network infrastructure to ensure safe and reliable supplies for our customers. We have first-hand experience on the impact that the complexity of the codes presents to a new market entrant.

Over the years these codes, though developing in a fragmented way, have served a pivotal role in regulating the power sector. It is vital that the governance around them commands the confidence of industry and regulators alike. They have however become unwieldly and highly complicated, at times requiring specialist knowledge not available to smaller players. It is right therefore that they are looked at again with a view to streamlining and better serving the interests of industry users, and ultimately to the benefit of end consumers. The contents of this submission should be read in that spirit.

Consultation Questions

1. **Do you agree with our four desired outcomes for the code governance landscape by the mid-2020s?**

The four desired outcomes are:

- Forward-looking regulatory framework, informed by and in line with wider industry/government strategic direction and the path to net zero emissions
- Able to accommodate a large and growing number of market participants, with effective compliance in an inter-dependent system
- Agile and responsive to change, while able to reflect commercial interests of different market participants
- Easier for any market participant to understand the rules that apply to them and understand what these mean

Vattenfall Networks agrees with the four desired outcomes. As relatively new entrant to the electricity distribution sector in the UK, we agree that if these outcomes are achieved it will result in a regulatory framework that is quicker to adapt to changes in our electricity system.

Although the outcomes are presented in high-level as principles, we are of the view that they are the right ones and that they address the challenges faced by the sector.

2. **Do you agree with the problems we have 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?**

The problems identified are:

- **Fragmented and lacking coordination**, with no single organisation responsible for looking at the opportunities for consumers created by the energy transition or providing oversight of the changes are needed
- **Lacking incentive for change**, with industry-led governance creating conflicting interests and slowing the pace of change

  Overly complex, with multiple codes that are lengthy and difficult to understand, a large number of code modifications and a large number of different institutions responsible for the codes

The challenges identified are in line with what Vattenfall Networks has experienced in setting up the business as an Independent Distribution Network Operator.

Whilst we agree with the identified problems we would add that the guidance which exists, whilst comprehensive, is also confusing.   Linked to this, in our experience, is that the requirements are very complicated and that the reasons for much of the complexity has been lost over time. Arguably a lot of complexity is unnecessary and could be removed. For example there are considerable numbers of Line Loss Factors Classes but ultimately tens of them point to the same set of numbers. In addition each Distribution Network Operator (DNO) has a different approach to the codes in many areas. For example, something as simple as the Red/Amber/Green time bands are different from DNO to DNO.

A possible interim solution might be found in allowing each of the current codes managers to produce revised guidance documents on the requirements each market participant need to meet and how they can meet them. These documents can then be used to understand the simplification required in each of the codes.

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

Whilst perhaps not evidence we would point to the fact that there is a substantial reporting requirement to a range of different bodies.   As a new entrant to the networks market, in Vattenfall's experience this leads to the existing regime being difficult to navigate in terms of understanding who's responsible for what and what actually needs to be done etc.

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

On balance we agree on the presented scope as a minimum. However, there are other codes which also affect the transition to a more flexible energy system and we would like to propose for these to be included as well. For example, MOCOPA which stands for Meter Operator Code of Practice Agreement was not mentioned as one of the codes to be reformed and in our experience is fundamental in the operation of the energy system. In an ideal world there would be a single code or failing that as few as possible.

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.

No. The set-up of the industry is also very complicated, and arguably is not to the benefit of consumers. For example, it is unusual for the Network Operator not to also own and be responsible for the meter unlike the European model where the DNO owns the meter. This has also been a major source of confusion for the consumer, who do they call when they have a power cut they call their supplier because they do not know who owns the equipment.

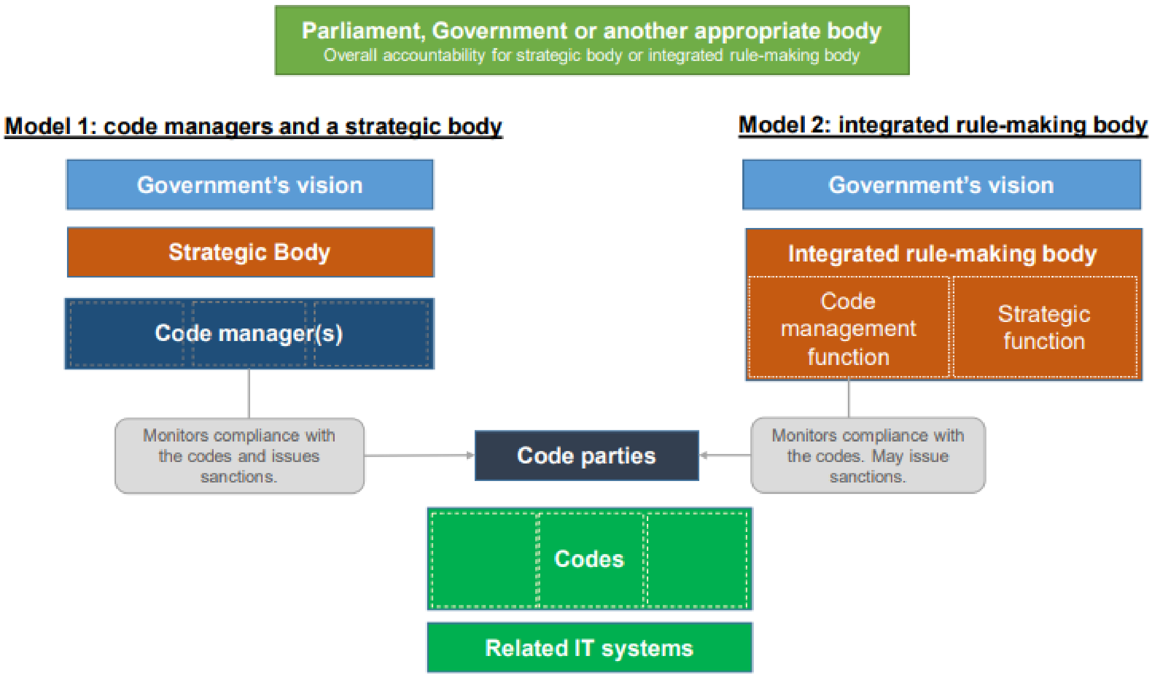
6. Do you agree that the four areas for reform are required? Please provide reasons for your position and evidence where possible.

On balance Vattenfall supports the four areas of reform as identified, though we are more supportive of some than others. Empowering code management and the movement of decision making away from industry are laudable in what they seek to achieve and the intention behind them is one which we support. However the provision of strategic direction and, in particular, the simplification and consolidation of codes strikes us as being the most crucial areas of reform for reasons discussed elsewhere in this submission.

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

Models

- • **Model 1** - Code Manager function and separate Strategic Body
- • **Model 2** - Integrated Rule Making Body (IRMB) (combined Code Manager and Strategic Body)



In principle we support the models outlined above subject to the details of the role of the strategic body and code managers.

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

Vattenfall believes that, although both models would potentially deliver on the desired outcomes, the largest risk on Model 1 is that by having separate Code Managers which are potentially not on the same organisation, that the same deviation between codes will occur in the future.

Model 2, with an adequate organisational structure and oversight, have better chances to ensure that the different code managers are coordinating changes that impact multiple codes. It can also reduce the number of meetings and resource by improving such coordination as multiple codes can be addressed in a single stakeholder engagement (depending on the change).

Whichever model is decided upon the important point is to reduce or at least streamline (i.e. harmonise) the management of the codes.

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

It is Vattenfall's view that there is a potential issue in Table 4 insofar as the code manager can propose, develop, recommend modifications for approval and approve the modifications. We wonder therefore whether the approval of modifications should reside with the strategic body to have clear separation. There could be a mechanism for individual non-strategic modifications to not have to be approved by the strategic body, subject to industry agreement.

10. Do you agree there is a missing strategic function for codes development in the energy sector and 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. Who is best placed to fulfil the strategic function and why?

Yes, Vattenfall strongly believes that the strategic function would be best fulfilled by a new, independent body to avoid conflict of interest or potential for competing priorities or challenges about possible bias. In our view , for these reasons, Ofgem should not be the strategic body. .

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?

Vattenfall agrees with the objectives and responsibilities set out in the consultation.

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

On balance Vattenfall is of the view that it may be too early to tell as much of the detail of this will also depend on the structure of the new body and funding streams behind it. We believe however that there is a need to make sure that any changes do not add to the burden of complexity and bureaucracy.

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)?

Vattenfall supports the idea of establishing a strategy board to help steer the process. We believe strongly that instead of comprising market participants the Board should be independent to avoid potential conflicting interests.

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.

It is Vattenfall's view that the strategic function should be limited to ensuring that the Government's vision for the energy sector is achieved. However it must do so taking into consideration what sectors will be impacted with the proposed change and if there are current frameworks or laws outside of the remit of the strategic function that are also impacted. If the strategic function is only going to take the vision of the government and put into action without considering the wider context, then it will not be delivering best value for consumers.

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: a. identifying, proposing and developing changes (analysis, legal drafting etc.), including understanding the impacts; b. making decisions on some changes, or making recommendations to the strategic body; and c. prioritising which changes are progressed. Yes/No/Don't know. Please explain.

Yes. The responsibilities outlined in the consultation for the code manager seem to be the appropriate ones which will also complement the role and responsibilities outlined for the strategic function.

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?

Simply put, resources and skills will be key for an end-to-end change. There will however also be a need for simplification and consolidation of the codes.

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.

No. In Vattenfall's view the code governance and modification process should be the same for all codes and this is best achieved by if there is only one code.

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.

Yes.

We agree that the code manager function should be accountable to the strategic body. Licencing seems more appropriate on balance but in either case code managers should be accountable to the strategic body.

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

Vattenfall does not have a view on this question.

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

No. Vattenfall believes that code managers should be accountable to a broad range of stakeholders which should include industry and that these stakeholder interests are built into the model specifically. .

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.

Yes. The code manager function should be appointed following a competitive tender process and that a proper emphasis is put on experience and a solid track record. We wonder if there might be a case for a new body to be created to fulfil the role as envisaged by question 22?

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.

Vattenfall does not have a strong view but would suggest that it would be more appropriate to have the function created by the strategic body than have a commercial organisation winning the bid to be the code manager.

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.

Yes. Vattenfall strongly agrees with the proposition that the code manager should not be closely linked to licensees.

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.

Whilst Vattenfall considers that, potentially, both could deliver value, much would depend on the set up of the strategic body and what the efficiency of the code manager is being based on. Given the critical role that the code manager will play it is crucial that they are adequately resourced. Budget scrutiny therefore seems more appropriate.

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).

In Vattenfall's opinion, to preserve the independence of the role, association or affiliation with an existing party to the industry codes should prevent parties from becoming code managers.

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

Vattenfall believes that funding via a license fee may be most appropriate but it is crucial that Ofgem considers how funding models preserve rather than challenge the independence of code managers.

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

We do not have a view on this question.

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

Vattenfall believes that Option C is likely to lead to the best outcomes and shares a view voiced by others that Ofgem should conduct and publish a detailed analysis of each option for the number of codes, then seek industry feedback on this analysis.

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

Vattenfall is of the view that one code manager per code is better as the different codes will touch on separate issues of the electricity and gas sectors. It will be more complex to find a group of individuals with all those skills and experience required to have in-depth knowledge of all aspects of the markets. Code managers should then be required to collaborate across codes to ensure that modification that have potential cross-code impact are considered holistically.

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

As suggested in the consultation Vattenfall believes that the options are not mutually exclusive and that rationalisation, simplification and digitalisation must be given equal priority.

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

Yes. Given the volume of content that is contained within the codes, digitalisation will be important from the point of view of navigation. Furthermore, this could also facilitate a more inclusive way of accessing the codes as with digital versions those who are hard of hearing or have vision loss can still access the code via text-to-speech or enhancements of the text (large letter version).

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

Vattenfall does not immediately see why this would be a role for industry. The extent to which it might be could depend on the scope of the term "industry".

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

It is Vattenfall's view that much of this will depend on how the two models would be set up We can see a case for both being equally as effective in this area.

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 rulemaking body)

Vattenfall does not have a view on this question.

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