


Interconnector (UK) Limited
4th Floor, 10 Fumival Street
London EC4A 1AB

Switchboard: +44 (0)20 3621 7800
Website: www.interconnector.com

 @IUK_Ltd

Code Reform-Electricity Systems Team
Department for Business Energy and Industrial Strategy
Abbey 1, 3rd Floor
1 Victoria Street
London
SW1H 0ET

Ofgem
Industry Codes and Licensing Team
Office of Gas and Electricity Markets
10 South Colonnade
London
E14 4PU

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Consultation on reforming the Energy Industry Codes

Interconnector (UK) Limited (“IUK”) welcomes the holistic review of the GB industry code governance arrangements. We agree that the current arrangements require a re-think to address key issues, such as fragmentation of responsibilities, complex and lengthy processes and conflicts of interest leading to sub optimal outcomes.

Challenges with the current framework

In our experience to date, the current arrangements are not entirely suitable. IUK is a bidirectional interconnector connecting the UK to Belgium. It is a vital infrastructure asset for the UK which over the last 21 years has played a critical role for GB security of supply and market liquidity. IUK is a merchant interconnector, with no captive demand and no consumer under-writing and faces a lot of competition from other interconnectors, LNG and Storage. It is also “an adjacent TSO” to National Grid with a very different business model. Since the expiry of its long term contracts in 2018, its revenues are based primarily on capacity sales of shorter term duration.

IUK holds a gas Interconnector Licence under the Gas Act 1986. IUK is certified as a TSO, like National Grid, but is not party to the Uniform Network Code which governs gas transmission in the NTS. As such, IUK is a “Non Code Party” under the UNC Modification Rules and does not have the right to raise modifications proposals or appeal a modification panel decision on areas that are directly linked with IUK’s core business.

As an example, to be able to appeal a panel decision IUK needs to be designated by Ofgem as an “Appealing Party”. However, the definition of who can be designated as an “Appealing Party” is narrow. As a result, IUK

has not always met the definition criteria and consequently has not been able to appeal decisions which directly impact IUK's commercial and operational model.

Providing a strategic direction and reform options

We agree that a strategic direction needs to be provided which will be informed by the Government's policy. It is also important to ensure that there is independent decision making and a mechanism through which the strategic direction is delivered by an effective code management framework.

One of the fundamental questions of this consultation is the options for establishing a new function to provide a strategic direction to the development of codes and play a key role in ensuring necessary changes are delivered effectively. We endorse the idea of a new function taking ownership of the strategy to ensure independent decision making and appropriate representation of all market interests. We also agree that code simplification and consolidation will make the industry codes more accessible and suitable to the changing energy industry.

We think that further thought is needed on whether another independent body should be established to take forward this role. In our view, BEIS is best placed to bring together all the relevant policies (e.g. "net zero target by 2050", "the future role of gas", "the Oil and Gas Authority objectives") and establish an internal function to provide the strategic direction needed and deliver the code management. We are sceptical as to whether establishing a new body is the right solution as it may end up adding a further layer of complexity and possible further fragmentation of the overall strategic direction of the UK's energy policy.

Accountability and decision making process

We agree that the code management function should also be responsible for proposing and developing changes based on market needs. This will help with greater independence of decision making and will indeed help in overcoming the lack of incentive to take forward certain changes among existing code parties. It will be a good step forward in developing a framework that will be more responsive to changes and reflects better the commercial interests of a wide range of market players.

In terms of accountability and decision making, the code governance regulatory framework needs to accommodate more effectively a large number of market participants and move away from the current situation where the process and the resulting outcomes represent primarily very few industry Stakeholders.

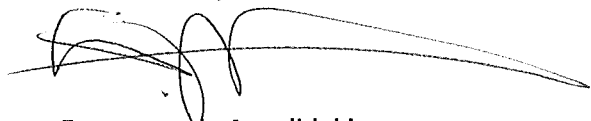
It is important that Stakeholders, like IUK, have a fair and equitable access to code reviews. In order to make them more accessible to more participants, the processes need to be simplified and made less resource intensive. It is vital to ensure going forward that there is separation from parties proposing a Mod and parties deciding on a Mod, to ensure all interests are appropriately represented and there is independent decision making. Finally, it is important to ensure appropriate processes are established to be able to escalate the matter, if there is a deadlock or Stakeholders disagree with the decision taken.

Next steps

To conclude, we welcome the fundamental review of the energy industry codes and we look forward to the establishment of new governance arrangements that will provide strategic direction, independent and effective decision making.

We appreciate that the fundamental review will take some time to be implemented but we would appreciate some further clarity on the timings. We consider this review a top priority for Ofgem and BEIS and we urge them to prioritise it in order to establish a framework that will be fit for purpose for the current and future challenges of the energy industry.

Your sincerely,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Emmanouela Angelidaki
Regulatory Affairs Manager

