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Dear colleague

### **Housekeeping changes to our guidance on code modification 'Urgency Criteria'**

We are today publishing updated guidance on the industry code modification urgency criteria. The changes we have made to our published guidance are of a housekeeping nature, for example to reflect that the guidance applies to urgent proposals to modify the Smart Energy Code (designated by DECC since our guidance was last updated).

A change-marked version of our guidance is included in the annex to this letter, and updated guidance is published on our website.<sup>1</sup>

#### **Background**

The industry codes are, broadly speaking, the contractual arrangements that underpin the operation of the electricity and gas industry arrangements. Each of the codes contains detailed rules governing how changes to the codes are made.

Among other things, the code change rules may provide for modification proposals to be treated urgently, and therefore follow an expedited process compared to the standard modification process timescales. We have published guidance on the factors that we would expect to consider in reaching a decision on urgency in the context of industry code modification proposals. We last updated and published this guidance in 2011.<sup>2</sup>

We have identified a number of minor amendments that are needed to our guidance since it was last updated. For example, the Government has designated the gas and electricity Smart Energy Code<sup>3</sup>, which, like other codes, provides for urgent treatment of modification proposals subject to the agreement of Ofgem. In addition, our guidance refers to the Competition Commission; the Competition Commission closed on 1 April 2014 and its functions transferred to the Competition and Markets Authority.<sup>4</sup>

These and other minor housekeeping changes are reflected in updated guidance published alongside this letter.

Yours sincerely

**Lesley Nugent**  
**Head of Industry Codes and Licensing**

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

<sup>2</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2011/05/ofgem-guidance-on-code-modification-urgency-criteria\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2011/05/ofgem-guidance-on-code-modification-urgency-criteria_0.pdf)

<sup>3</sup> <https://www.smartenergycodecompany.co.uk/>

<sup>4</sup> <https://www.gov.uk/government/organisations/competition-commission>

## Annex 1: Change-marked guidance

### Ofgem Guidance on Code Modification Urgency Criteria

#### Who decides a modification proposal is “urgent” and/or determines its timetable?

~~There are 7 electricity codes and 3 gas codes in Great Britain.~~

- ❖ For the following codes the Authority<sup>5</sup> decides whether a modification proposal should be considered urgent and/or can determine its timetable:
  - **Balancing and Settlement Code ('BSC')**
  - **Connection and Use of System Code ('CUSC')**
  - **System Operator-Transmission Owner Code ('STC')**
  - **Uniform Network Code ('UNC')**
  - **Independent Gas Transporters Uniform Network Code ('iGT UNC')**
  - **Distribution Connection and Use of System Agreement ('DCUSA')**<sup>6</sup>
  - **Smart Energy Code (SEC)**
- ❖ For the following codes, the ~~respective~~ Executive Committee for each code decides whether a modification proposal should be considered urgent and determines its timetable:
  - **Master Registration Agreement ('MRA')**
  - **Supply Point Administration Agreement ('SPAA')**
- ❖ The **Distribution Code** and the **Grid Code** currently contain no specific rules on urgency.

Though each Code has slightly different rules we would expect the urgency criteria below to be applied in deciding that a modification proposal should be treated as “urgent”.

We also recommend code parties raise modification proposals in a timely manner so that a proposal receives careful industry consideration and avoids the risk of a constrained timetable under the urgency procedure.

#### What criteria would ~~the Authority~~ we use to determine urgency?

The Guidance sets out the factors ~~the Authority~~ we will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case by case basis by reference to the Guidance, and in circumstances where we depart from it, we will explain the reasons why. Our current view is that an urgent modification should:

1. Be linked to an **imminent issue**<sup>7</sup> or a **current issue** that if not urgently addressed may cause:

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<sup>5</sup>The terms “the Authority”, “Ofgem” and “we” are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>6</sup>In the case of the DCUSA the Proposer specifies whether the modification proposal should be considered “urgent”; the Panel then determines the timetable to follow. However, the Authority can direct that an alternative, ‘urgent’ timetable applies in place of that set by the Panel.

<sup>7</sup> The imminent issue may be date related.

- a. **A significant commercial impact** on parties, consumers or other stakeholder(s); or
- b. A **significant impact on the safety and security** of the electricity and/or gas systems; or
- c. A party to be in breach of any relevant **legal requirements**.

### **Can an urgent modification proposal contain retrospective elements?**

As indicated in past decision letters, it is our view that retrospective modifications should be avoided as they undermine market confidence. It is a general principle that rules ought not to change the character of past transactions, completed on the basis of the then existing rules. However, despite the general principle against retrospective rule changes, we believe that there may occasionally be exceptions that could give rise to the need for a modification which would have retrospective effect.

We consider that it is appropriate to consider any retrospective modifications on a case by case basis, though the particular circumstances that could give rise to the need for a retrospective change could, for instance, include:

- a situation where the fault or error giving rise to additional costs or losses was directly attributable to central arrangements;
- combinations of circumstances that could not have been reasonably foreseen; or
- where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

We also consider that in any event, any cost/loss incurred due to the prevailing rules would need to be material in order to warrant a retrospective modification.

Notwithstanding the points raised above, we recognise that a retrospective application of a modification may negate the need for its development to follow an urgent or otherwise contracted timetable, and vice versa. A proposer may therefore wish to consider where the balance between these considerations might appropriately lie, ahead of submitting their proposal.

### **Do “send back”<sup>8</sup> provisions also apply to “urgent” proposals?**

Yes, if we think that we cannot properly form an opinion based on the final modification report.

### **Can the status of a modification proposal be changed?**

Yes, the status of a modification proposal may change from “urgent” to “non-urgent” and vice versa, if a change in circumstances relating to that proposal warrants it.

### **Can a modification proposal that follows the Self-Governance path be considered urgent?**

~~Following recent changes to the BSC, UNC and CUSE Under most of the codes~~, a modification proposal ~~raised to one of these codes~~ can be considered as Self-Governance if certain criteria are satisfied. The ~~s~~Self-~~g~~Governance criteria apply to a proposal that if implemented is unlikely to have a material effect on: existing or future gas or electricity consumers; competition or associated commercial activities; the operation of the relevant

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<sup>8</sup> We introduced ‘send back’ powers through our Code Governance Reviews. The powers ~~apply to the BSC, UNC and the CUSE and~~ allow the Authority to formally return final modification reports to the relevant panel where we consider the analysis, legal text, or any other aspects of the report is deficient and inhibit our ability to make a robust decision.

gas and electricity system matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; code governance or modification procedures; and, if it is unlikely to discriminate between classes of users (the “Self-Governance criteria”).

Given the pre-requisites for Self-Governance and urgency require opposing levels of impact (unlikely if implemented to have a material effect for Self-Governance and a significant impact for urgency), it is unlikely that a modification proposal could fulfil both sets of criteria. However, as set out above, we would consider each case on its merits.

### **Can a decision on an urgent modification proposal be appealed?**

The granting of urgency does not in itself exempt the Authority’s decisions on urgent proposals from the right of appeal to the Competition and Markets Authority Commission<sup>9</sup>. However, the Authority can exclude decisions if the delay caused by holding an energy code modification appeal against that decision is likely to have a material adverse effect on the availability of electricity or gas.

### **Who can I contact for further assistance?**

If you need further assistance regarding this Guidance please send an email to: [industrycodes@ofgem.gov.uk](mailto:industrycodes@ofgem.gov.uk)

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<sup>9</sup> Under the Energy Act 2004