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Dear Laura,

Consultation Response - Industry Code Governance: Initial consultation on implementing the Competition and Markets Authority's recommendations

Thank you for the invitation to respond to the above document. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

Executive Summary

We very much welcome this consultation and the opportunity it represents to improve industry code governance. The current governance framework was designed and implemented many years ago, since which time the energy system has changed radically. In particular, the energy system has taken on a central role at the heart of the UK's efforts to reduce carbon emissions and other dangerous greenhouse gasses. The code governance framework does not reflect this change and should be altered to more effectively support delivery of a low-carbon energy system.

The structure of the energy market has fundamentally changed. The energy supply market now comprises over forty companies. We agree with the Government's view that a diverse energy market, characterised by new entrants with innovative models, is in the best interests of consumers. However, the complexity of energy code governance limits the opportunities for newer, smaller players, without the resources of the large incumbents, to be involved. The governance arrangements must be made more accessible to smaller participants, who have much to offer the industry.

In summary, the code governance arrangements need to be reformed so they support the transition to a decarbonised, decentralised energy system, and more effectively involve the full spectrum of energy suppliers, rather than being dominated by large, long-established players. The current code governance structure was effective in delivering on the objectives of the days when it was put in place, however change is now necessary.

Scope of the new arrangements

The codes each have different procedures for code modifications. A single, unified process across all of the codes would reduce complexity, helping companies – particularly smaller ones with fewer resources – to understand and track industry changes and facilitate their participation in consultations.

A single, central change register, updated frequently to track progress of industry changes and setting out a brief summary of their anticipated impacts, and relevance to different categories of stakeholder, would improve transparency, both for code signatories (particularly smaller signatories with limited resources)

and for the consultative board. Such a register would also allow easy monitoring of progress of cross-code changes because it will be clear if any of the changes in the individual codes are lagging behind others, jeopardising timely delivery of a change project.

The usefulness of reporting provided by the executives of the codes differs significantly. Greater consistency and simplicity in the way code administrators report meetings and decisions for those that did not attend, would better assist code signatories.

We support a broad review of the codes and, in particular, believe their objectives should be revisited. Currently the codes have different objectives, but shared objectives would make cross-code change easier. It is not clear that the current objectives are sufficient to support the necessary decarbonisation of the energy system. We propose that an additional objective should be added to all codes, that any changes must support the transition to a low-carbon energy system – relating to the supply of electricity, gas, heat (recognising there is currently no code governing the distribution of heat) and low-carbon transport.

Licensing and competition

Tenders for code management should not be based purely on price, but also on standards of service, particularly - for the reasons given above - those relating to improved access and engagement with smaller market participants.

Strategic direction

We very much welcome the recognition of the need for greater strategic direction in the codes. The UK has committed to reduce its carbon emissions to levels commensurate with a global 1.5°C rise above pre-industrial levels and the energy system will be relied upon to deliver much of the required carbon reduction. Code changes, therefore, should be strategically aligned to support (or at least not hinder) decarbonisation of the energy system. This alignment could best be achieved through the introduction of a specific objective for supporting decarbonisation to the greatest possible extent in each of the codes. An objective merely to reduce carbon emissions compared to the prevailing levels, rather than to the greatest practicable extent, would represent a missed opportunity to shorten the pathway to a decarbonised energy system.

Consultative board

The consultative board should be responsible for ensuring that the changes that progress through the industry do so in a coordinated way. Central to its role would be oversight and co-ordination of cross-code changes to ensure they are delivered in a coherent and timely fashion. Where a change is raised in one code, the board must assess whether other modifications will be necessary in other codes to ensure the modification can be delivered effectively. The board should advise Ofgem, highlighting when modifications have become so significant and far-reaching that a Significant Code Review should be considered – such as is the case under the current review of embedded benefits.

The board must be made up of representatives from a diverse range of companies – particularly from smaller market participants. Although those acting on the consultative board are likely to, as on the code panels, be present as independent industry experts, their employers are still able to gain from their experience and unique view on the change process. Steps must be taken to allow smaller participants to benefit from the same opportunities. Given that code business takes place in London, but many small

suppliers are based across the UK, consideration should also be given to the creation of a fund to support smaller firms' participation in the consultative board – to fund travel, subsistence, accommodation etc.

Moving to new arrangements

Whether Ofgem's increased powers over strategically important modifications will render the Significant Code Review (SCR) process obsolete will depend on how such powers are exercised. This is because an SCR is a lengthy process based on high levels of industry engagement. There is a risk that without this or a similar equivalent process, far-reaching code changes which impact the energy system happen without the involvement of industry participants. If the SCR process is to be removed, it is essential that a new transparent process is put in place with regular input from industry to ensure that Ofgem is able to consider fully the latest changes within the industry. In any such engagement process, a range of views must be sought from participants of varying sizes and in different parts of the energy supply chain. Any processes that are currently undergoing an SCR, or which may soon be subject to an SCR, should be allowed to complete their course. This is essential to avoid disruption to the current regulatory process. Where SCRs are necessary, this process of governance review should not delay their consideration as part of an SCR.

Other comments

A review of the code governance arrangement is a significant opportunity to help support the delivery of an energy system which is fit for the future. It is important that as wide a base of knowledge is accessed as possible. Therefore, we would propose that Ofgem should also consider the work of research institutions such as Universities in this space. For example, the work of Dr Matthew Lockwood from the University of Exeter.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

Tom Steward

Wholesale Regulatory Officer