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Your ref

Our Ref

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Contact / Extension

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Dear Laura

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

SP Energy Networks is the networks business of Scottish Power and holds three electricity network licences. We own and operate the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution) which serves two million customers, and Merseyside and North Wales (SP Manweb) which serves one and a half million customers. We also own and maintain the electricity transmission network in the Central Belt and South of Scotland (SP Transmission), although this is operated by National Grid, in its role as the National Electricity Transmission, System Operator of Great Britain.

We welcome the opportunity to comment on the above proposals as the following codes are embedded into our business; Grid Code; SO-TO Code; Connection and Use of System Code; Smart Energy Code; Master Registration Agreement; Distribution code and Distribution Connection Use of System Agreement.

We support what the proposals are attempting to achieve, however, we do believe that the long term cost and timing implications must be considered before implementing any licence changes. In particular, if licensing is to be introduced, we are concerned that code administrators will be re-appointed too frequently and a great deal of knowledge will be continually lost.

Scope of the new arrangements

There does not appear to be an assessment of the cost implications for the industry or how the licence code administrators will be funded. For instance, Distribution Code costs are currently funded by Distribution Network Operators' (DNOs) fees to the ENA which allows the DNOs to have control over the expenditure incurred in managing the codes. Under the current proposals, this direct accountability would be lost. It may be appropriate for Ofgem to take up this role of monitoring costs of the codes on an annual basis for some of the larger codes, such as the CUSC, however, not for the "smaller" codes.

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The implementation of licensing to code administration services will likely introduce more complexity. It would be helpful if a hierarchical flow chart could be provided illustrating how each code and administrator relates to one another.

Strategic Direction

In relation to the technical codes, it is our view that these codes are too detailed for a strategic direction to be effective. It will however assist when implementing changes which may have effects across a wide range codes.

It is not yet clear how the new role of the Independent System Operator¹ will impact these proposals. This is a good example of when the Strategic Direction will be beneficial as there could be cross code changes.

New Roles and Responsibilities

1. Subject to Licences

We note that Ofgem may require code parties to cooperate with code managers in developing code change through strengthened licence conditions. However, not all parties who are required to engage may be subject to a licence, for example, small generators or customer representatives.

We welcome clarity on how this new regime will flow through to the Smart Energy Code as it governs the Smart DCC which is already licensed.

2. Ensuring Continuity

It is generally assumed that a competitively appointed code manager will be appointed due to submitting a low cost tender bid. However, it is important that those selected have the necessary skill set and technical knowledge to ensure the smooth functioning of the particular code.

Is it not clear if safe guards will be implemented to ensure that a code administrator cannot hand back their licence if the costs of carrying out this role became cost inefficient. In addition, it is important to all parties involved that the experience and knowledge of the administrator is not lost.

¹ Current Ofgem consultation

https://www.ofgem.gov.uk/system/files/docs/2017/01/future_arrangements_for_the_electricity_system_operator.pdf

Options for Licensing

The minimum set of standards must be clear from the outset to ensure that unforeseen costs are not charged at a premium by the administrator.

Consultative Board

We welcome clarification on who will develop and maintain the Joint Plan. It is not entirely clear in the Consultation how the wider industry will participate. Our understanding from Objective 3 on page 5 and Table 6 on page 34, that this plan would be developed by the Consultative Board and that industry would help maintain it.

Detailed guidance will be required to ensure that the roles of the Consultative Board are fully understood. For example, by carrying out a 'facilitative' role, it is our understanding that this will be still be a limited role with observer status. However, this could be interpreted wider by others.

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