

Responses to our initial consultation on the code governance remedies

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ofgem

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Background

Context

- November 2016: Industry Code Governance: Initial consultation on implementing the Competition and Markets Authority's recommendations
- January 2017: workshop
- February 2017: consultation closed
- May 2017: published responses to enable stakeholder engagement

Our consultation

- Scope of the new arrangements
 - Licensing and competition
 - Strategic direction
 - Consultative board
 - Moving to the new arrangements
- Work streams**

Responses

- 41 submissions in total
- From a wide range of respondents, including: code administrators, code panels, code bodies, large and medium-small suppliers, electricity and gas DNOs, Electricity and gas generators, representatives of the renewables industry, professional and industry associations, a consumer body, etc.

Scope of the new arrangements

We proposed

- New arrangements to include CACOP codes and the central system delivery functions
- Factors to be considered for the scope:
 - accountability,
 - strategic change,
 - volume and scale of change,
 - scope of code

We asked

- Should the scope be broader or narrower?
- Are there any other factors to consider?

They said

- The majority of the respondents agreed with the codes and functions we have identified
- Some suggested to include:
 - all codes (including upcoming ones),
 - Data Transfer Service (DTS), and
 - Security and Quality of Supply Standard (SQSS)
- Associated costs were mentioned by most as other factor to be considered

Licensing and competition

We proposed

- Include code manager and delivery body functions in a single licence, because of the synergies between them
- There may be merits in building the new code management responsibilities of NGET on existing conditions (through the electricity transmission licences) instead of competitively appointing a new code manager

We asked

- Should we include the code manager and delivery body function in a single licence?
- Should we strengthen the licence of NGET to include new code management requirements?

They said

- Majority do not support licensing
- Most respondents supported including a code manager and delivery body in a single licence - as long as it is done on a case-by-case basis
- Respondents were fairly evenly split regarding whether or not to strengthen NGET's licence

Licensing and competition

We proposed

- 4 licensing models:
 - licensing precedes/follows tendering
 - tendering is done by Ofgem/another body
- Models have different strengths and weaknesses and may be better suited to some codes than others

We asked

- What are the merits and drawbacks of the different models?
- Which model(s) may be appropriate for different codes/type of codes?

They said

- Respondents questioned the benefits case for competitive tendering
- Most respondents would prefer Ofgem running the tenders, issuing licences to the winners
- Few respondents expressed their opinion on which model may be appropriate for different codes; the majority of those would prefer consistency

Strategic direction

We proposed

- The strategic direction should set out, on an ongoing basis, outcomes Ofgem is aiming to achieve through changes to industry codes
- It should contain:
 - key outcomes to be delivered,
 - roles and responsibilities,
 - 'vision' of cross-code reform,
 - explanation of our priorities
- List of activities and projects to be included in the strategic direction
- Three stage development:
 - establishing the content and the level of detail required
 - defining the responsibilities
 - developing incentives and accountabilities

We asked

- Do you agree with the purpose of the strategic direction?
- How do you think we should develop and implement it?
- Which Ofgem projects should be included in the strategic direction?
- How much detail would be appropriate?

They said

- Wide support for the strategic direction, but it should be consulted upon
- Development: consultation is key
- Implementation: importance of the delivery framework underlined
- Most respondents agreed with the projects we suggested, a few recommended including Security of Supply, ECO reform, Priority Services Register and Extending Competition in Electricity Transmission
- The strategic direction should be clear on what needs to be achieved but not restrict how to do it
- Longer term Ofgem projects (+5 years) should be included, at least at a high level

Consultative board

We proposed

- The key purpose of the consultative board should be coordinating and facilitating the delivery of strategic changes across codes
- List of possible functions for the board
- The consultative board should be capable of making non-binding recommendations to us
- Market participants, code panels, code managers and delivery bodies should have an obligation to provide information to the board

We asked

- What should be the core role and functions of the consultative board?

They said

- Respondents generally support for the creation of a consultative board
- A secretariat may be needed
- The consultative board should have powers so it can operate effectively
- The consultative board could proactively seek to spot gaps and overlaps
- Respondents also flagged that the composition and funding of the consultative board are major issues to be decided on

Moving to new arrangements

We proposed

- The reforms are unlikely to affect the governance of major projects and programmes (eg. switching programme, half-hourly settlement)
- Significant Code Review powers are unlikely to be required once the full package of remedies is in place
- Pros&cons for a staggered approach to run competitive licence applications

We asked

- How would moving to the new arrangements impact existing projects?
- Will SCR powers be obsolete once the new arrangements are operational?
- What are your views on staggering the implementation of competitive applications for licences?

They said

- The system is already stretched; moving to the new system will add work so lead to delays with current projects
- Opinions are fairly evenly divided on whether SCR powers will remain necessary
- The majority of the respondents who provided a view on staggering were in favour of it

Next steps

Open letter

We plan to publish an open letter in June / July. This is to include:

- a summary of the responses received to our initial consultation, and
- an update on our next steps in developing the policy.

Strategic direction and consultative board

During the summer we will focus on these two work streams:

- we will develop the strategic direction and the consultative board, taking into account the consultation responses, and
- we will engage stakeholders on latest thinking.

Licensing

We need legislation to progress with the licensing work stream. We await indication from new government of legislative priorities.

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.