


**Responses to our initial consultation  
on the code governance remedies**

**May 2017**

ofgem

# Content

- Background
- Consultation 
  - Our proposals
  - Our questions
  - Dominant views received
- Next steps

# 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.

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**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.**