Public

Energy Codes Review

ELEXON's Views on Code Consolidation and Simplification

Angela Love
Director of Strategy and Communications
February 2019

ELEXON

Agenda

1	**GB Energy industry governance – what is the problem?**
2	**How codes can be consolidated**
3	**What the "substantial reform" future could look like**
4	**Other 'Quick wins' to consider : What can be done in the meantime**
5	**How Elexon is pushing the current boundaries**

ELEXON

The codes which underpin the energy system play a vital role in ensuring that the wholesale and retail energy markets function correctly.

However these codes were set up several decades ago for an energy system and market that looks very different now, given the major growth in distributed generation and low carbon technology. Further change is also on the horizon as the energy system becomes smarter, with new businesses offering different products and services.

Incremental changes have been made which, for example, allow greater scope for self governance by code bodies. However the current arrangements have not been successful at delivering widespread change, the like of which we need to see in the future.

The Department for Business Energy and Industrial Strategy and Ofgem are carrying out a review into codes

More information on the review and the issues that have been identified is here:

https://www.ofgem.gov.uk/system/files/docs/2018/12/tor_revised_final_301118.pdf
https://www.gov.uk/government/publications/energy-network-codes-review

ELEXON supports the need for change, especially to streamline and consolidate the codes.

My presentation mainly covers:

- ELEXON's views on reforms to codes including consolidation, building on Ofgem's plans for the new Retail Energy Code
- What improvements can be made now, so that we don't have to wait for the outcome of the review
- What ELEXON has done to improve things within its current remit
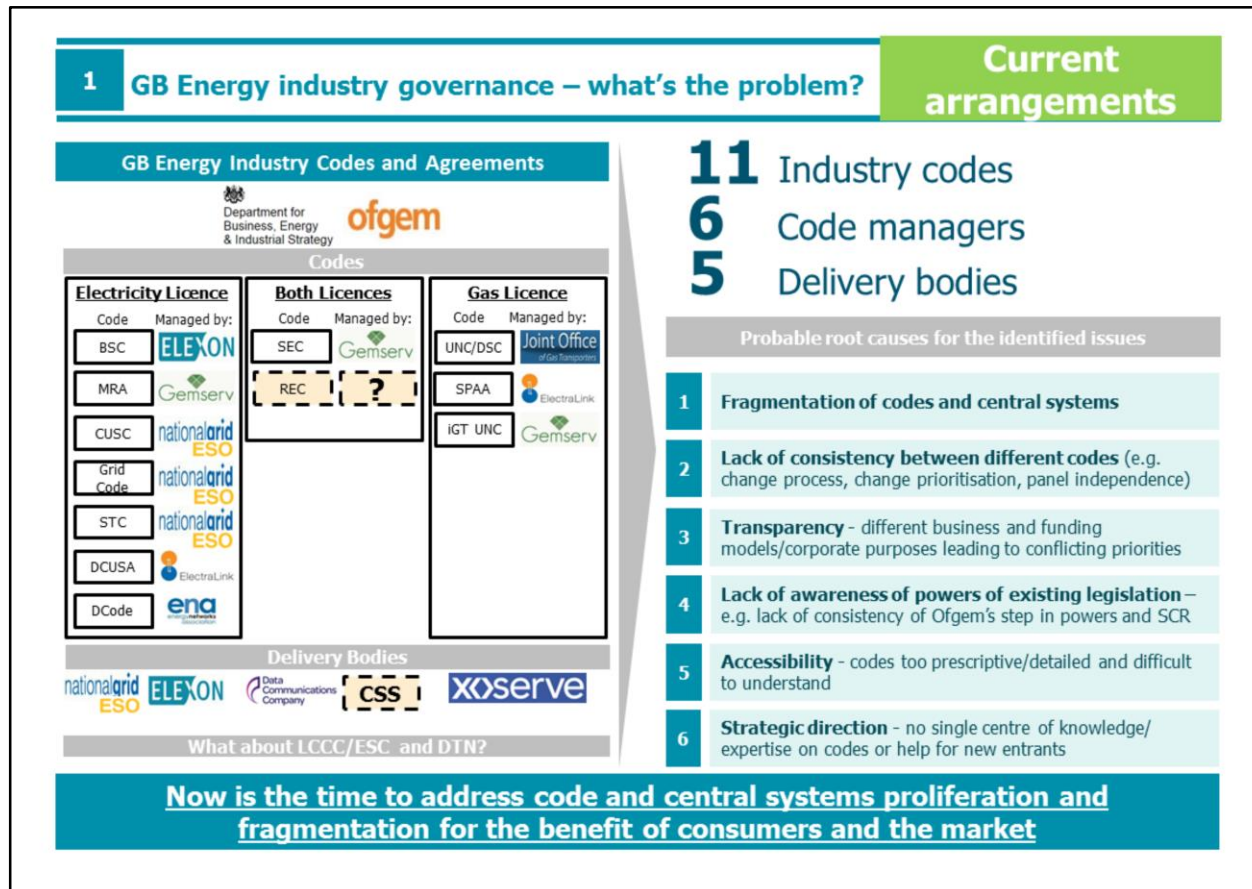
The industry codes are commercial contracts that underpin the operation of the electricity and gas industry arrangements. The codes landscape has evolved over the last 20 years in a piecemeal way into a fragmented set of arrangements that we have now – as shown on the slide.

Having worked in the utilities sector for over 25 years, I have experience across 8 of these codes and worked for 4 of the companies who manage them, therefore I can see what has worked well, what has worked less well, and what can be learned.

There has been an increase in the number of new suppliers and business models entering the market over the past few years. It is no wonder that it is difficult for new entrants to navigate the energy sector:

- There is no standard approach to managing the codes
- It is difficult to achieve co-operation between code bodies because of the diverse funding models that exist between them (although ELEXON can push the boundaries because our model is not for profit).

Clearly the funding models need to be looked at to consider which of the current options is the best value for money and most efficient. Presently these range from:

- The smart meter Data Communications Company (DCC) which is fully price controlled and operates under licence,
- The Electricity System Operator which operates under National Grid's price control,
- Gemserv and Electralink, which are commercial companies, and
- ELEXON, which is a not for profit model.

There is no view on prioritisation of change and limited ability to drive change.

The results of this include fragmentation, a lack of consistency and different levels of transparency (as set out on the right hand side of the slide).

It is vital that we address these issues and look at all the aspects including code management, governance, delivery and funding.
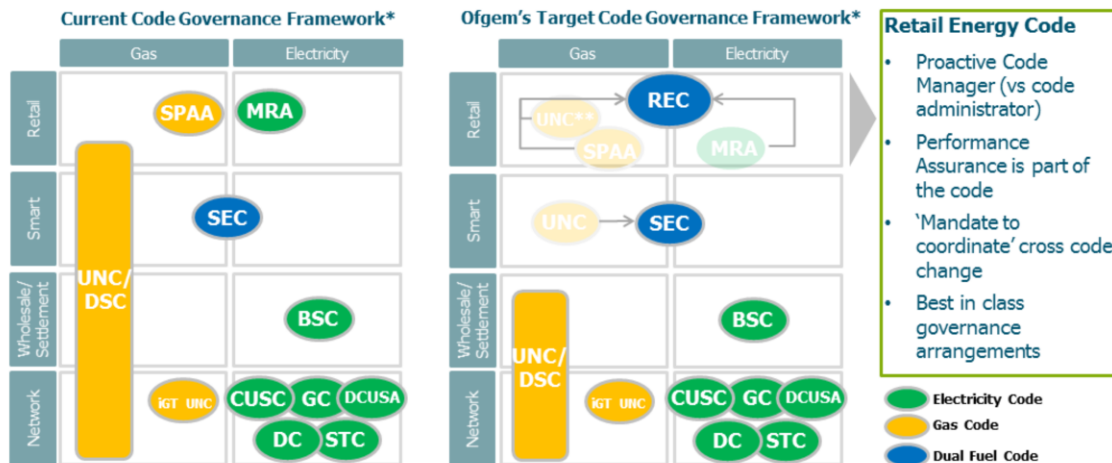
The outlook has already started to change thanks to Ofgem's work, which includes successive reforms to code governance: https://www.ofgem.gov.uk/licences-industry-codes-and-standards/industry-code-governance/code-governance-review

Ofgem is also developing a Retail Energy Code (REC) to support the move to faster and more reliable switching between suppliers (for consumers).

Under the REC, Ofgem is bringing together the retail elements of the Uniform Network Code (UNC), the Master Registration Agreement (MRA) and the Supply Point Administration Agreement (SPAA).   This means the REC will cover both gas and electricity. ELEXON supports this principle, as most suppliers sell both gas and electricity (known as dual fuel).

Ofgem wants to build best practice so that the REC ensures:

- That there is a proactive code manager vs code administrator
- Includes performance assurance as part of the code
- The code manager has a mandate to co-ordinate cross code change
- 'Best in class' governance arrangements

However we have to ask ourselves: How can we consolidate codes further to embed industry best practice and enable alignment of gas, electricity, transport and heat to deliver a "Whole System Approach"?

To look at substantial reform we have considered all the codes, functions and best practice.

It is important to highlight that the codes are the market rules, as this isn't always recognised. The energy markets need to be kept in balance both for security of supply and the benefit of the whole system (no more so than in electricity). If this does not happen, then the lights go out. The codes facilitate this balance.
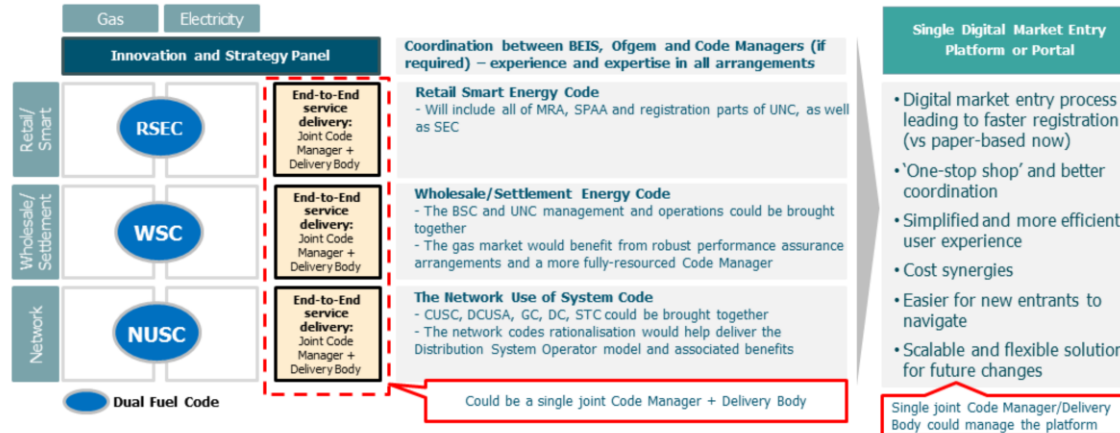
Building on the work Ofgem is doing on the Retail Energy Code (REC) we believe that there is an opportunity to move to

a three-code, dual fuel model – as set out on the left.

The Smart Energy Code (SEC) would be brought into the retail energy code, and the Data Communications Company (DCC) would also need to comply with the REC.

The Balancing Settlement Code (BSC) and Uniform Network Code (UNC) would be brought together and the gas market would then benefit from robust assurance arrangements and a more fully resourced code manager. Such an arrangement could address the significant error in the gas market, known as unidentified gas.

There would be a 'network use of system' code bringing together the Connection and Use of System Code (CUSC), the Distribution Connection and Use Of System Code (DCUSA), the Distribution Code (DC) and the System Operator Transmission Owner Code (STC). Bringing these codes together could help facilitate the delivery of the Distribution System Operator.

The three codes could be managed individually, or jointly by one body (including management and delivery).

As part of the solution there could also be a single digital market entry platform – a front end portal to aid market entry and offer help and support for new and existing entrants.

Although there are different funding options, currently we believe that these should be looked at to get the most efficient benefits for customers, companies and for Ofgem.

There is a lot we can do now to improve the current arrangements, without having to wait for the outcome of the codes review. ELEXON has already started work on this.

A number of issues need to be tackled:

- The end to end process to make changes to the codes needs to be reviewed to ensure that change can be delivered more quickly, making best use of resources and time for the industry, code administrators and Ofgem.

- Best practice on panel governance needs to be replicated quickly across all code bodies. We believe that the Balancing Settlement Code (BSC) model for this is best in class.

- Under code governance we need to consider the different roles that a code manager could play, compared with a code panel, alongside delivery bodies. This is important for improving decision making and the speed at which decisions are made.

- Smaller companies and new market entrants don't often have the time or resources to participate in the change process. So we must also consider how we can improve representation for them. Options for this include having a jointly-funded representative to cover the views of smaller participants on code panels.

There are many good short-term outcomes expected from this – ultimately it's about speeding up change and focussing more on getting the right changes in place.

We believe that much can be done in the bounds of the current arrangements and that other codes should be following the example of ELEXON and how we have been pushing the boundaries. However we recognise that the current funding models may restrict this for others.

How is ELEXON pushing the current boundaries?

Our business plan for the coming year (https://www.elexon.co.uk/wp-content/uploads/2018/03/BSCCoBusinessPlan2018_19_final.pdf) sets out the priorities for how we will work, covering the following key themes.
- Engagement

- Quality Delivery
- Innovation
- Being more customer-centric
- Simplification

We are focussed on **accessibility** - this includes offering guidance and support to market entrants and guiding BSC parties through market changes. We are also working on our Foundation Programme - a new digitised platform for central systems and processes which will help new entrants and existing participants alike. ELEXON is already undertaking the much talked about digitisation.

We support the **change process** to help new entrants/innovators. We have proactively made the case for change to help new business models. This includes P362 – the BSC sandbox and P379 which supports customers being served by multiple suppliers. However – progress has been slow as we cannot raise change proposals ourselves (this has to be done by an industry party such as an energy supplier). Instead we help develop and administer proposals once they are brought to us.

Finally we are supporting the strategic direction for the energy market, which includes leading on Half-Hourly Settlement and Target Operating Model design for Ofgem. It has taken five years to reach the stage that we have on market-wide half hourly settlement, when arguably we could have got to this point much earlier if ELEXON could raise modification proposals.

We support reforms such as Project TERRE (Trans-European Replacement Reserves Exchange) which opens up a Europe-wide market for balancing electricity. However, we need to understand the barriers ELEXON faces to carrying out further work.

Angela Love
Director of Strategy and Communications

www.elexon.co.uk