

# OFGEM/BEIS CODES REVIEW

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<b>MEETING NAME</b>	BSC Panel
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<b>Owner/author</b>	Angela Love/Alina Bakhareva
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<b>Purpose of paper</b>	For Information
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<b>Classification</b>	Confidential
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<b>Summary</b>	This paper gives the context to the Ofgem/BEIS Code Review Project and provides the slides, which will be presented to the Panel.
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## 1. Codes Review announcement and scope

- 1.1 On 15 November 2018, Secretary of State, Greg Clark, announced that there would be a Review of Energy Codes, as part of his speech "After the Energy Trilemma – the four Principles for the Power Sector". Since that time we have been engaging extensively with the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem on their joint Review.
- 1.2 As part of our engagement we have been proposing to Ofgem/BEIS that the review should cover both gas and electricity and also cover not just Code Administration, but also the Code Delivery Bodies i.e. Xoserve and the Data and Communications Company (DCC). In addition, as part of our considerations we identified early that the funding models for the existing arrangements should be within the scope of the Review, as the models used can drive different behaviours amongst the Code Bodies. We therefore have suggested to Ofgem and BEIS that this aspect needs to be included, although this could be a longer term goal, given that some funding arrangements are part of Price Controls and therefore could not be fixed quickly.

## 2. What ELEXON has been proposing

- 2.1 We have undertaken extensive work on what the future Codes Landscape could look like and also considered the work that Ofgem has carried out to date under the development of the Retail Energy Code (REC) and the governance arrangements therein. We have built upon Ofgem's dual fuel approach to the REC and proposed that there is the potential for the industry to develop a three Code Model, which would have a Retail Code (incorporating the REC and Smart Energy Code); a Wholesale and Settlement Code (bringing together the Uniform Network Code (UNC), the Xoserve Data Service Contract and the BSC and potentially other new settlement activities); and a Network Use of System Code (bringing together the network aspects of the UNC, the Connection Use of System Code (CUSC), the Grid Code, the Distribution Code, the System Operator (SO) Transmission Owner Code and the Distribution Use of System Code). This would see the existing 11 Codes move into three new Codes and build on the horizontal model of industry governance (across gas and electricity), which Ofgem have developed under the REC (please refer to the slides, which accompany this paper).
- 2.2 We have also proposed that there could either be one or three Code Managers who could manage the Codes.
- 2.3 Additionally there is the issue of the potential to have an Innovation and Strategy Panel sitting over the top of the Codes to give strategic direction and focus change on the delivery of Energy Policy. The need for such a Strategy Panel to also have a coordination role diminishes if there is only one Code Manager across the three Codes (as that Code Manager would be responsible for coordination) but the need for a Strategy Panel may still exist in such circumstances. There is debate about where such a Strategy Panel would sit and how it would be facilitated, with some suggestions that this could be done via a public body.

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- 2.4 Finally ELEXON has also suggested that there could be a frontend portal to all Codes arrangements to aid market entry.
- 2.5 Furthermore, as a separate strand in parallel but independent of moving to three Codes, we have proposed some immediate improvements to Code and Panel governance and operations, most of which involve applying ELEXON and BSC best practice across the other Codes. It should be noted that at the BEIS/Ofgem industry events (see below), ensuring consistency of service across Codes was the highest scoring wish of those present.

### 3. Progress to date

- 3.1 We have presented our above thoughts on Code consolidation and simplification to Ofgem and BEIS and also presented at the joint Ofgem/BEIS Code Workshops, over two days in early February 2018. At these events there were around 140 attendees, with a mix of BSC Parties, consultants and other interested parties (agents and innovators). Gemserv, Electralink, Energy Systems Catapult and ESO also presented at those events, as well as BEIS and Ofgem on the options that they are looking at and the problems that they see with the existing arrangements.
- 3.2 Electralink's presentation focused on the need for performance assurance and the Gemserv presentation was looking at developing (in the long term) an approach to risk based regulation. ESO is seeking to resolve the issues with charging being subject to open governance, with multiple parties being able to propose changes to suit their commercial position and more than 50 proposals coming through CUSC since 2010. Therefore ESO focused their presentation on the issues that they see with the current approach, it being resource intensive and focused on ad-hoc proposals from parties, rather than a holistic or strategic approach. Energy Systems Catapult provided details of the Future Power System Architecture Programme and the need for strategic oversight.
- 3.3 Since our early meetings with BEIS and our outlined proposal for a three Code model, BEIS have been talking to other stakeholders about a three Code model. We therefore believe that this is something that BEIS may be considering. In particular BEIS have highlighted that they are looking at radical reform and not just incremental change, which we believe the three Code model would deliver.
- 3.4 We are continuing to work on stakeholder engagement and a White Paper on our proposals. As part of that we presented to the Energy UK Electricity Codes Sub-Committee in early March 2018 and will be working further with Ofgem and BEIS to understand the options that they are considering, to help shape our White Paper.

### 4. Next steps

- 4.1 Ofgem/BEIS will be issuing a consultation in May on options for reform and considering responses over the summer. BEIS has advised that the Government will publish an Energy Strategy Whitepaper thereafter, which will encompass their proposals for the Codes.

### 5. Recommendation

- 5.1 We invite the Panel to:
  - a) **NOTE** the Code Review process and the ELEXON proposals.

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For more information, please contact:

Angela Love – Director of Strategy and Communications

[angela.love@elexon.co.uk](mailto:angela.love@elexon.co.uk)

Alina Bakhareva – Strategy and Market Advisor

[alina.bakhareva@elexon.co.uk](mailto:alina.bakhareva@elexon.co.uk)