ELEXON Policy View: The Energy Codes Review

ELEXON has set out its vision for agile, digital, customer focused, open data market arrangements and its proposal for how the energy industry codes (the commercial arrangements underpinning the energy system) could be simplified and consolidated.

ELEXON has put forward options for how the 11 existing gas and electricity codes could be simplified into three codes covering the retail, wholesale and networks sectors as a first step.

This would bring benefits to customers and the industry by streamlining the management and change processes for the codes. This will be important as we move to a smarter energy system.

What are the energy codes?

The rules that companies must follow to operate in the gas and electricity markets are set out in documents called energy codes. While known as 'codes' these are the commercial arrangements that underpin the energy system and are legal contracts, responsible for managing risk and billions of pounds between the parties that are signatories to them. To operate in the markets a company has to sign certain codes as a requirement of its licence.

The codes cover a number of aspects such as ensuring the system is balanced and that the charges for the activities carried out across the markets are paid for and billed to the correct parties. In addition they often set out the technical aspects that keep the energy system safe and secure. They also set the requirements for new connections and arrangements to switch suppliers.

As the energy landscape and arrangements constantly change the codes contain a process of change management, which allows market participants (and Ofgem) to propose changes to code rules. Although the codes are commercial contracts between market participants there is a role for Ofgem in all of the codes.

Each of the codes is supported by a code body. In some cases this is a purely administrative role, whereas in others, it involves an 'end-to-end' service of proactive management of the code change process. The end-to-end service also includes running the systems and providing the services that support the market, as well as supporting users with expert advice from market entry through operations and to exit. The broader service additionally enables expert support to government and regulator in policy development and implementation.

ELEXON provides this end-to-end service for the Balancing and Settlement Code (BSC), which makes sure that payments for imbalances in wholesale electricity supply and demand are settled accurately.

Our service includes helping new entrants and new business models into the market. We also work with industry to develop change proposals so that the BSC supports moves to a smarter energy system. As such we act as a 'critical friend' to market participants.

The codes also establish Panels to assess proposed changes. The Panels make recommendations to Ofgem to approve these (or not) where the changes will have commercial implications on Parties.

What are the current issues?

As the competitive energy market has developed, so too have the code rules to ensure that the integrated energy system in Great Britain facilitates multiple actors within the sector.

However, over the past 20 years the codes have evolved in a piecemeal way. There are now 11 code documents, six Code Managers and five Delivery Bodies, which causes confusion and is a breeding ground for inconsistent arrangements.

The codes themselves are long and detailed documents. For some they can be confusing and difficult to engage with, resulting in some organisations becoming 'change takers'.

Coupled with this, the energy market is changing rapidly and we are moving from a top-down model with generation flowing from large-scale grid connected power stations, to customers having more small-scale generation at home. The codes were developed after privatisation of the energy market, with large, vertically integrated companies in mind. They were not created in a way which allows them to be agile and responsive to this new type of decentralised energy market.

The codes do not lend themselves to innovation or innovative business models. The codes and the energy market itself revolve around traditional energy suppliers that buy energy and pay for it to be transported through networks before selling it to customers. In the future, new entrants may want to operate in a different way, combining energy services such as paying customers for providing demand side response. Customers themselves may also contract with a range of suppliers to buy and sell their energy. The codes must evolve to enable these new services for the benefit of industry and the consumer.

Options for reform

The Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem are now reviewing the codes and code governance arrangements. They will announce next steps in the coming months.

ELEXON believes reforms are needed so that the codes can support the rapid changes in the energy market and dovetail with other initiatives such as the Future Energy Retail Market Arrangements. Codes can be immediately improved and in the medium term, simplified and consolidated. We believe that the scope should cover all 11 codes, and all of the multi-party contracts that are used within the market to cover the arrangements.

Immediate improvements

ELEXON has argued for certain principles to be adopted across the code landscape, which we believe could be pursued as immediate priorities.

Consistency and common practices
Across codes for the change processes and credit pooling

More agile and speedy change
Empowering code managers to raise and progress change, with Ofgem being able to identify some change proposals as priorities and Ofgem providing earlier views to avoid wasted effort

Independence and lack of domination by incumbents
All Panels to include consumer representatives and other non-industry members, with an independent chair

Coordination across codes
A common funding and business model to drive the correct behaviours amongst code bodies, leading to coordinated change for industry

Simplification
Removal of redundant or unnecessary rules and processes

Accessibility and inclusivity
Enabling participation by smaller players reducing the need for smaller parties to join face-to-face meetings by having a funded representative, specifically tasked with considering smaller parties' views

11 Energy industry codes

(Currently)*

Electricity Only

Code:	Managed by:	Code:	Managed by:
Balancing and Settlement Code (BSC)	ELEXON	The System Operator Transmission Owner Code (STC)	nationalgridESO
Master Registration Agreement (MRA)	Gemserv	Distribution Connection and Use of System Agreement (DCUSA)	ElectraLink
Connection and Use of System Code (CUSC)	nationalgridESO	Distribution Code (D Code)	ena energynetworks association
Grid Code	nationalgridESO		

Gas Only

Code:	Managed by:
Uniform Network Code and Data Services Contract	Joint Office of Gas Transporters
Supply Point Administration Agreement (SPAA)	ElectraLink
Independent Gas Transporters Uniform Network Code	Gemserv

Gas & Electricity

Code:	Managed by:
Smart Energy Code	Gemserv
The New Retail Energy Code (REC)	Still in development. We explain more on Page 8.

5 Code delivery bodies

(Which provide the IT services and support that delivers each code)

nationalgridESO

Data Communications Company

The Customer switching service provider which will be appointed under the REC

ELEXON

xoserve

The scope of the BEIS and Ofgem review should also include:

The Low Carbon Contracts Company and the Electricity Settlements Company
Which are both owned by BEIS and play roles in delivering the Electricity Market Reforms

The Data Transfer Network
A communications network managed by Electralink which supports data transfer in electricity and gas

*Suppliers are also obliged to meet the Smart Meter Installation Code of Practice managed by Electralink

Medium-term simplification and consolidation

For a number of years ELEXON has been a strong proponent of simplification and consolidation of the codes. It is our view that an agile, digital, user focused set of market arrangements which will benefit the industry and consumers will not evolve unless there is radical simplification and consolidation of the fragmented code landscape.

There are various ways to achieve this and we are outlining our views on how it could be done. There may be alternatives to achieve this consolidation, and we will keep talking to BEIS, Ofgem and the industry about the best way to achieve beneficial reform.

Ofgem has recently been working on developing a Retail Energy Code (REC), to underpin the centralisation of gas and electricity switching and enable faster customer switching. This will bring together the electricity Master Registration Agreement (MRA) and the gas Supply Point Administration Agreement (SPAA), as well as the retail aspects of the gas Uniform Network Code (UNC). Through this process Ofgem has been seeking to create a 'best-in-class' governance arrangement, which learns lessons from the existing codes in the market.

As such the REC includes a more proactive Code Manager that can raise modification proposals and is appropriately resourced to develop them. It also has a performance assurance regime to give certainty to market participants that parties are complying with the rules and holds to account those that are not. It also mandates coordination of changes where they need to be developed in more than one code.

We believe that consolidating the retail aspects of the market into one code is a great example of how the existing arrangements can be streamlined. The REC will benefit suppliers and their customers, by recognising that the market is dual fuel in nature.

We have been looking at the other codes in the energy market to determine how Ofgem's model could be replicated across the sector. The whole sector could be effectively run using one code across retail activities, one for wholesale and energy settlement and one for the network aspects of the market. This could reduce the 11 codes we currently have to just three.

This could see the creation of:

The Retail Smart Energy Code (RSEC)
Including the Master Registration Agreement, Supply Point Administration Agreement and registration parts of the Uniform Network Code (UNC) as well as the Smart Energy Code and the Smart Metering Implementation Code of Practice. This would ensure that all Retail aspects of the market are included in one code.

The Wholesale and Settlement Code (WSC)
Bringing together the Balancing and Settlement Code BSC and UNC management and operations, while allowing the gas market to benefit from a more robust performance assurance arrangement. It would also improve abilities to track down 'unidentified gas' (which can't immediately be attributed to a particular user).
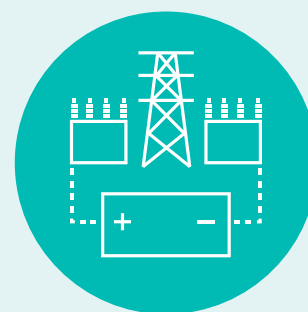
The Network Use of System Code (NUSC)
Bringing together five electricity network codes governing connection and use of the networks. These are the Connection and Use of System Code, the Distribution Connection and Use of System Agreement, the Grid Code, the Distribution Code and the System Operator Transmission Owner Code (STC). This would for example, help Distribution System Operators to work more closely with National Grid, the electricity system operator, to make the best decisions on investing in, and managing the networks.

We also believe that there could be an opportunity for a single digital market entry platform or portal.

There could be one code manager to run all of the codes and ensure coordination and consistency. An alternative could be one Code Manager for each of the three codes. A requirement of this role would be that Code Managers must proactively manage the code, change process and deliver end to end management for the industry parties. Achieving coordination between the three code managers would be vital and should be possible given the lower number of managers. If necessary this could be achieved by having a separate coordination forum.

We also believe that there could be an opportunity for a single digital market entry platform or portal. It would offer a one-stop-shop, better coordination across the codes, and a new digital market entry process. ELEXON is already developing a digital market entry process for Parties signing up to the BSC, so we do see a case for a wider portal.

Benefits of simplifying and consolidating codes

Under the simplified model we believe that there will be a number of benefits:

– A simplified and more efficient user experience
– Easier processes for new and existing users to navigate
– A scalable and flexible solution for future changes to energy market rules
– The ability to process changes more quickly and the opportunity for more tailored engagement of parties
– Consistent processes including a one-stop-shop service desk for market participants to use which would cover all the codes
– The potential pooling of credit arrangements between the codes to reduce energy companies' credit burden
– The ability of the Code Manager to coordinate and prioritise change, and be guided by Ofgem and Government on important changes
– Greater interaction between Distribution System Operators and the Electricity System Operator
– Cost synergies

We believe that there is a real opportunity for the industry to deliver a new code model, with these benefits. Reforming the codes will provide a framework for the future, embedding industry best practice and enabling new business models. Reforms can enable the alignment of gas, electricity, transport and heat delivering a whole system approach.

Funding Model

Currently there are a variety of different funding approaches that are used across the Code Managers and delivery models. The Data Communications Company is fully licenced and price controlled. National Grid Electricity System Operator (administrator for the CUSC, Grid Code and the STC) is licenced under National Grid and subject to their price control. Gemserv and Electralink are commercial organisations whereas ELEXON operates on a not-for-profit basis.

We believe that it is also the right time to consider each of these models and determine which one delivers the desired behaviours and most efficient and effective means of providing the services needed.

There is sufficient merit in moving to a model which emulates the end-to-end code management service that ELEXON offers. We have a 'best-in-class' record on customer satisfaction with our services as evidenced by Ofgem's Code Administrators' Performance Survey. This is underpinned by our 'not-for-profit' business model and our transparency which sees us publish our business plan including budget every year for industry comment.

How the new arrangements can be delivered

We recognise that there is a lot of change within the energy market currently and the codes review could place an additional burden on the industry. But the codes review should be seen as complimentary to, and supportive of these other initiatives. It may even be the vehicle to implement some of their conclusions. We believe that bringing the codes together under the ownership of the Code Manager, or Code Managers, will result in simpler arrangements going forward.

There has been progress towards this such as incorporating the independent gas transporters into the UNC and the changes to the funding governance and ownership of Xoserve. And more recently the development of the REC shows how simplification could be achieved. However, we need to go further.

We believe our vision is achievable and that if there is a will to change the Codes landscape for the better, the result will be major benefits to customers and the wider industry.

Reforming the codes will provide a framework for the future, embedding industry best practice. Reforms can enable the alignment of gas, electricity, transport and heat delivering a whole system approach.

For more information contact
ELEXON's Communications Team:
communications@elexon.co.uk

ELEXON