

Northern Powergrid response to the consultation on the implementation of energy code reform

Designation of codes and central systems

Q1. *Do you agree that we should recommend to the Secretary of State that the 11 industry codes listed (including the SQSS) should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?*

1.1. Yes. However, Ofgem should confirm whether the following are implicitly included in scope of a ‘qualifying document’:

- i. The Electrical Standards included in the Grid Code General Conditions Annex; and
- ii. The Annex 1 and/or Annex 2 documents in the Distribution Code.

Q2. *Do you agree that we should recommend to the Secretary of State that the 5 central systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?*

1.2. Yes.

Code consolidation

Q3. *Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (ie the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.*

1.3. The net benefits appear, intuitively, to be excessively high, especially if converted into 'person years'. Ofgem appears to assume a lot of people are or, in the future, will be engaged in code change. Whilst difficult to quantify, we suspect that Ofgem’s view of the net benefit relating to code parties is significantly overstated.

1.4. Regardless, it will be difficult to assess whether the proposed net benefits materialise. As such we consider that decisions should primarily be principles-based.

Q4. *Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (ie the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.*

1.5. We are generally comfortable with the approach Ofgem has taken with the assessment against the design principles, together with the rationale used in applying the scoring system.

Q5. *Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?*

1.6. Yes. We prefer the option of creating a unified electricity commercial code as opposed to electricity distribution and transmission network codes covering both commercial and technical issues.

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- 1.7. We agree that long-term and enduring net benefits can be delivered relative to the counterfactual option. However, we believe the attributable value of said net benefits is likely to be significantly lower than Ofgem suggest.
- 1.8. We generally agree that the proposed consolidation should mitigate consequential changes via cross-code impacts. However, we note Ofgem's preference to not consolidate the Balancing and Settlement Code (BSC), amongst others. In our experience, consequential changes to the Connection and Use of System Code (CUSC) and the Distribution Connection and Use of System Agreement (DCUSA), and lack of cross-code coordination, often arises from changes made to the BSC, without due regard for the impact on, for example, network charging. This reform should ensure that, where codes are ring-fenced, cross-code impact assessment is further improved as we do not consider existing approaches to be as effective as they could be and need to be. This can be supported via licence obligations on the respective code managers.
- 1.9. We are comfortable with Ofgem's proposal to leave three codes untouched by consolidation, the BSC, Retail Energy Code (REC), and Smart Energy Code (SEC). However, we consider that these codes could arguably fit well under a unified 'retail market code'. For example, we understand that some market entry requirements are duplicated in the BSC and the REC and the means of satisfying those requirements can differ between the codes. We understand why Ofgem may not want to consolidate these three codes at this point in time but suggest that Ofgem should remain open minded regarding the potential for consolidation in future.
- Q6. *Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?***
- 1.10. Yes. We prefer the option of creating a unified electricity technical code as opposed to electricity distribution and transmission network codes covering both commercial and technical issues.
- 1.11. We agree that long-term and enduring net benefits can be delivered relative to the counterfactual option. However, we believe the attributable value of said net benefits is likely to be significantly lower than Ofgem suggest.
- Q7. *Do you agree with our preferred option to consolidate the UNC and IGT UNC to form a new unified gas network code?***
- 1.12. We have limited our response to electricity code consolidation but, at face value, we consider Ofgem's preferred option to be sensible.
- Q8. *Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?***
- 1.13. We are supportive of the general intent to rationalise the identified code provisions.
- 1.14. We remain of the view that code panels (or dedicated equivalent sub-committees) should be retained, at least in an advisory capacity, to support code managers. We recognise the benefit of the Stakeholder Advisory Forums (SAFs) and consider that they could complement, but not replace, the need for a standing group of experts tasked with independent input into decision-making by the code managers. However, we also recognise that the constitution of the SAFs might mitigate the need for such sub-committees of experts and we agree with Ofgem that its preferred SAF option should achieves this, provided that the SAFs are appropriately constituted.
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- 1.15. Ofgem should also review lessons learned from the consolidation of codes into the REC and subsequent changes that have been implemented to improve processes. We recognise that the REC effectively remains in a 'measure and correct' phase but it is important to acknowledge that it has not set the standard by which this reform should be benchmarked. Lessons learned from the REC include:
- i. The drafting and tracking of changes to the consolidated code document:
 - Missing requirements (to those in the separate code documents) including Data Transfer Catalogue rules, data flow notes etc – meaning parties are still using old versions of pre-consolidation codes (e.g. the Master Registration Agreement);
 - Incorrect interpretations by the code body resulting in parties having new/different consolidated requirements that don't work; and
 - Introducing new service level agreements that parties cannot meet or are not cost-effective to meet – with significant remedial effort required.
 - ii. Lack of industry groups, removing parties' ability to feed into change.
 - iii. The code modification process being slow, contrary to the intended opposite effect.
 - iv. Short timescales for pre-releases of new versions of the code document.
 - v. A performance assurance framework that focuses on change of supplier activity against a backdrop of continued switching inactivity.
- 1.16. We support streamlined processes and escalation routes, whilst ensuring that arrangements cater for an extensive range of knowledge that cover a diverse range of topics (that will expand with code consolidation). The arrangements must ensure that, first and foremost, parties receive the most accurate and useful information from experts – with an appropriate and simplified route created to access this where possible.

Strategic direction

- Q9.** *Do you agree with our proposal to publish the first SDS for all codes next year (before code managers are in place)?*
- 1.17. We welcome early visibility of the Strategic Direction Statement (SDS). However, Ofgem should take care to ensure that expectations on industry and existing Code Administrators to deliver SDS-related code modifications are balanced (and realistic for Code Administrators to implement) during this early phase of reform.
- 1.18. Ofgem should seek to align the key SDS deliverables to the scope of ongoing Significant Code Reviews (SCRs) where possible, as licence obligations to support delivery already exists, and to avoid inefficiencies and priority conflicts in the process.
- 1.19. Caution is needed whilst significant uncertainty lingers over the appointment of code managers as the new code managers may be different to the existing Code Administrators. This uncertainty risks creating distraction and loss of the industry resource needed to deliver modifications arising from the existing modification process as well as those additional modifications raised to align with the SDS, such that the various priorities may not align.

- 1.20. Uncertainty of the arrangements in the transitional period, particularly for the existing Code Administrators, could have adverse implications for the delivery of short-term code modifications (one-year ahead), or for the groundwork needed for medium-term modifications (e.g. two years ahead).

Q10. *Do you have views on the proposed SDS process?*

- 1.21. We agree it is reasonable and welcome assessment of context, including the government's Strategic Policy Statement (SPS) and wider developments in the sector.

Q11. *Do you agree with our proposal that a principles-based standard condition for gas and electricity licensees would support the development and delivery of code modifications related to the SDS?*

- 1.22. We are comfortable with the proposal, provided that it introduces a licence condition with obligations that are similar to those currently in our licence.
- 1.23. We consider that it is more important that the 'right' resource with the 'right' expertise develops a code modification – whether this is provided by the code manager or industry – than ensuring more parties are represented. All impacted parties should continue to influence outcomes via discussion, consultation and, ideally, voting by impacted parties.
- 1.24. In our experience, industry groups that develop code modifications typically draw from the same small pool of resource. Whilst we do not believe that all parties always need to be involved in modification working groups, we trust that code managers shall ensure that appropriate resource, with appropriate expertise, takes forward and develops modifications.
- 1.25. We believe the proposed licence modifications should support this balance, but should not need to be as explicit as those that require us to support delivery of an SCR. We agree that it would be reasonable for affected parties to provide support when specifically requested by the code manager. We would also want to have an opportunity to provide support even when support had not been specifically requested by the code manager.

Code governance arrangements

Q12. *Do you agree with our preferred option for how a Stakeholder Advisory Forum should be constituted?*

- 1.26. Yes, we support option 3 'fixed/impartial membership' and support Ofgem's rationale set out in the consultation. We believe that existing code panels operate well, with committed and expert fixed-term membership that provides impartial views in support of code modification assessment and decision-making. We believe that option 3 is most aligned to this approach and welcome the proposal for broader representation.
- 1.27. We agree that it is important for stakeholders who have experience and knowledge to support code managers in developing robust codes that reflect the SDS and that are implementable by affected parties. We make the following points in relation to the SAF:
- i. We support the principle that members of the SAF should be able to make a recommendation vote. In addition to providing a helpful steer to a code manager in making its recommendation to Ofgem, it would increase the incentive for stakeholders to proactively participate in the SAFs.

- ii. We assume that code managers will continue to consult with industry as part of the modification process. On this basis, and to ensure transparency of the decision-making process, we believe that code managers should respond to all responses provided by stakeholders. This will provide reassurance that the code manager has duly considered feedback from consultees and help to ensure industry engagement. We note that some existing modification processes adopt this approach already, but improvements can be made in this aspect to improve transparency.
- iii. As the SAFs would relate to the entirety of the consolidated codes, we assume that the code manager will need to convene SAF subgroups, comprising members with specific expertise, to develop specific changes to specific parts of the consolidated code. It would be helpful for Ofgem to confirm whether this is the intent.

Q13. *What are your views on i) a requirement to assess the greenhouse gas impact of code modifications with updated guidance, or, ii) introducing a 'net zero' code objective?*

1.28. Our preference is option 2, i.e. to introduce a net zero code objective. This option should improve consistency across codes and promote the need to deliver this key objective. It should also better align with Ofgem's principal objective to protect the interests of existing and future consumers and the need to have regard to delivering Net Zero in doing so.

1.29. For a code modification to be considered against this objective, it would need to be addressed against a set of criteria that must be clearly defined and practical to achieve.

Q14. *Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?*

1.30. Yes, we support prioritisation of code modifications, which should be via an effective triage process to identify modifications that, for example, deliver most benefit to consumers and are aligned to the code objectives.

1.31. Unless urgent (e.g. aligned to an SCR), modifications that have a significant impact on central systems should not be prioritised.

Transition

Q15. *Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?*

1.32. Yes. We agree with Ofgem that there should be a phased approach to the transition to the new arrangements, which would enable that process to operate more efficiently whilst allowing for lessons learnt to be factored in. We agree with the concerns relating to the other approaches.

1.33. Care needs to be taken to ensure that the transition is carried out in such a way that uncertainty for existing Code Administration is removed as quickly as possible. Uncertainty may result in loss of resource from existing Code Administrator functions that would be detrimental both to the transitional and enduring arrangements.

Q16. *Do you identify any strategic or operational considerations that might inform the transition sequence?*

1.34. No. We are comfortable with Ofgem's assessment of these considerations.

Q17. *What are your views on our proposed transition sequencing?*

1.35. We are comfortable with Ofgem's proposed transition sequence. However, as noted in response to question 15, care needs to be taken to manage uncertainty specifically relating to resource and expertise retention.

Q18. *Do you have any other comments on how Ofgem should approach the implementation and transition process?*

1.36. Our main concern is there being sufficient people with the right experience and expertise engaged in the transitional and enduring code management arrangements.

1.37. The existing codes have evolved over the last thirty years generally in a reactive manner to address issues that occurred to avoid their re-occurrence in the future. It is important to ensure that knowledge within the wider industry of the underlying reasons as to why the existing codes include their current content is not lost during this reform process. If the reasoning for existing code content is not understood by those consolidating or rationalising codes, there is the risk of unintended consequences.

General feedback

Do you have any comments about the overall process of this consultation?

1.38. No.

Do you have any comments about its tone and content?

1.39. No.

Was it easy to read and understand? Or could it have been better written?

1.40. Yes.

Were its conclusions balanced?

1.41. Yes.

Did it make reasoned recommendations for improvement?

1.42. Yes.

Any further comments?

1.43. A spreadsheet is not an appropriate medium for responding to consultations of this nature.