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Dear Maxine,

SGN response to Ofgem open letter on further review of industry code governance

Thank you for the opportunity to respond to your open letter seeking views on the potential for a further review of industry code governance that you published on 15 May 2015.

We consider it is essential code governance arrangements effectively and efficiently enable the industry to evolve and meet the obligations of participants and the needs of consumers. We have summarised our views to each of the questions you have asked below and look forward to further engagement and dialogue with you on these important issues moving forward, and as Ofgem's thinking develops further.

Question 1: Do you consider the governance changes introduced under CGR and CGR2 have been effective in improving the code governance arrangements.

Question 2: Do you agree that there is a need to consider further reforms to the industry code governance arrangements? If so, what issues do you consider should be addressed, and what possible solutions do you identify?

In general, we believe current code governance arrangements are fit for purpose and provide a suitable degree of transparency for industry participants who seek to actively engage with change processes.

However, we consider further changes are required to improve the efficiency and effectiveness of the code governance process. By way of example, the previous Security of Supply code review took much too long, was not inclusive enough with industry parties and modifications are now being raised to correct legal text and other issues that arose primarily as a result of that approach.

We consider existing codes are well supported by incumbent code administrators but that more could be done to improve their effectiveness. For example, more powers should be given to Code Administrators/Panels in cases where inappropriate modifications are suggested to stop these modifications reaching development stage. For instance, these include modifications that are not

relevant to a specific code and therefore should not be considered further. There will obviously be stringent rules and criteria implemented with this approach but we feel that overall this can be managed and will save industry time and effort.

We would also note that the progress of many change proposals largely relies upon a small number of industry experts that represent the parties to the various codes. Ofgem must recognise that this pool of industry experts is becoming increasingly stretched due to the number of important industry change programmes that are currently underway, and the inability to spread this expertise across multiple projects at the same time. Building this level of expertise required takes time, is not a finite resource and cannot be resolved by simply recruiting additional numbers of inexperienced staff. We also believe this should be an important consideration for the level of expertise required within Ofgem to oversee the current codes and in forming any future code governance decisions that may require additional levels of resourcing to administer.

The principle of a 'critical friend' role held by the code administrator is supported by SGN, and we believe this to be a practical way to offer assistance to both newer and longer established parties. However, we would be concerned about any significant extension of the critical friend role, if that created additional costs, unless there was evidence that specific reforms would have a strong probability of delivering additional benefits. We also believe this principle should be applied to the concept of having independent chairs

We would suggest that Ofgem considers whether code panels could be given further powers to withdraw code modifications which have stalled in development and have not been progressed by their proposer after a period of time. This would improve the efficiency of the overall process a code panel is responsible for administering. Furthermore, we would also suggest that code panels should not have to wait for predetermined time periods to have elapsed before progressing modifications. For instance, within SPAA modifications can only be implemented within the predetermined three monthly time windows. It is clearly inefficient and ineffective for industry participants and consumers for the panel not to be able to implement any modification immediately, and as soon as they are able to do so.

Question 3: In addition to a post implementation review of our CGR reforms and potential changes discussed in this letter, are there any other areas of industry code governance that should be considered in this review?

We support proposals for cross code working but we are concerned about having a single modification which spans across numerous codes. It is also important to recognise that any future code governance arrangements should be able to facilitate the raising and consideration of modifications that may be of benefit to users of other fuel types. In our view, such a holistic approach should allow consumers to benefit from such modifications and which is not currently the case.

In respect of Ofgem's willingness to reconsider the concept of modification windows, we consider these may be appropriate for charging modifications but could result in delaying other types of modifications. This is because such windows would have the potential to prolong the modification process and thus make it less efficient and more cumbersome to manage.

Should you require any further information with regards to our response then please do not hesitate to contact either Erika Melen at erika.melen@sgn.co.uk or myself at paul.mitchell@sgn.co.uk .

Yours sincerely,

Paul Mitchell
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