

National Grid response to BEIS / Ofgem Consultation on Reforming the energy industry codes

At National Grid, we welcome the Government's commitment to a net-zero target by 2050. We share the ambition to accelerate decarbonisation, and deliver a fair and affordable net-zero economy. We believe that the transition to net zero presents an exciting future for our communities, and for UK plc - cementing our global leadership in reducing emissions, creating new opportunities for our economy, and improving our air quality.

We must ensure the code frameworks are strategically focussed to help drive the industry to achieve net-zero. The codes need to better support and adapt to new customer trends in technology, such as EV charging, whilst also providing stability and better transparency for the processes which govern our network planning and investment activities.

We are delighted to respond to this timely consultation on reforming the energy industry codes and would welcome further engagement with BEIS and Ofgem on this matter.

Executive Summary

- 1.1. The energy industry codes, which oversee how the gas and electricity sectors operate, were first established over two decades ago. Over the years, the governance of these codes has worked reasonably well, managing hundreds of changes to address many user needs. We have seen the development of new technologies and markets, driven by a far greater number and diversity of industry participants. The energy codes have been vital in successfully ensuring security of supply as well as industry and public safety standards, this focus on achieving world class reliability should be protected and nurtured.
- 1.2. However, the change seen by the industry to-date will only need to accelerate if we are to achieve net-zero by 2050. As such we welcome this timely opportunity to support BEIS in their work to ensure the industry codes help deliver the UK's decarbonisation ambitions, maintain reliability, and continue to provide value for consumers. The codes will need to enable new and emerging technologies, ensure these are help support the wider system, and manage increasing whole system (cross-fuel) interactions.
- 1.3. We support the need for more strategic direction within the code development process: a forward looking, policy-guided approach to managing the code frameworks which separates decision making from the industry, should be a key outcome for this review. In the absence of creating a formal body, we believe that Ofgem would be best placed to lead this, maintaining a strategic focus and ensuring alignment with broader changes across licences and the wider industry. The right composition of this new group is vital to ensure that it has the expertise it needs, that decisions are aligned with policy drivers, and that no one dominant view stifles progress.
- 1.4. It will also be important that the code frameworks evolve to be flexible and adaptive, with minimal complexity. Today, the code change process can often require months, sometimes years, to implement; meanwhile the codes can become out-of-date. A clear set of codes that can quickly adapt to an evolving energy landscape will help to deliver change quicker, better support new market entrants, and encourage innovation. The set-up of the code management, and the direction they are given from the strategic group will be key to this.
- 1.5. We support proposals to create digitised codes. We believe this will aid greater access and transparency and drive a better market understanding and awareness of the codes process and procedures.

Understanding National Grid

National Grid performs a number of key roles that are essential in meeting the UK's energy needs, running the systems which keep Britain's energy moving, to power and heat our homes, and the way we all get around.

This response represents the views of National Grid Gas plc (NGG) which owns and operates the high-pressure gas National Transmission System (NTS) in England, Scotland and Wales; National Grid Electricity Transmission plc (NGET) which owns the high voltage transmission system in England and Wales and National Grid Ventures (NGV), which owns and operates energy businesses in competitive markets in the UK and US, which include electricity interconnectors, the Grain LNG storage terminal and National Grid Metering. Following the business separation of the Electricity System Operator (ESO) from NGET, its views are not represented in this submission.

NGG and NGET are regulated by Ofgem and these businesses have recently published their latest draft business plans for the next RIIO 2 price control period (2021-2026), which can be found here <https://investors.nationalgrid.com/riio-2>. In building these plans we have extensively engaged with our customers and stakeholders to understand their needs and ensure they are reflected in our plans.

Consultation Questions and Response

Do you agree with our four desired outcomes for the code governance landscape by the mid-2020s? Yes/No/Don't know. Please explain. If you disagree, please explain what you consider the outcomes should be.

- 1.6. Yes. We believe the code reforms should drive the industry towards net-zero, enabling new and emerging technologies, and remove any perceived barriers to new market entrants or business models. A forward looking, policy-guided, approach to managing the code frameworks should be a key outcome for this review.
- 1.7. It will be important that the code frameworks evolve to be flexible and adaptive to change. They need to better support new market entrants, while also ensuring some level of consistency so that users have greater familiarity over their compliance obligations, particularly those which drive operational cost and/or investment requirements.

Do you agree with the problems we've identified (in chapter 1 – Background – and in later chapters), and that they present a persuasive case for reform of the current framework for energy codes? Yes/No/Don't know. Please explain. Do you have additional evidence on the performance of the current framework?

- 1.8. There are challenges with sustaining industry engagement in code change activities, often due to resource and/or cost constraints, which consequently results in a lack of minimal attendance at working group meetings, especially from smaller and new market entrants, which presents a barrier to effective change.
- 1.9. There is potential for the existing codes framework to act as a barrier to entry to new market entrants. In addition to feeling that the obligations are often unclear and / or complex, it is believed that larger industry participants have a competitive advantage, with the ability to utilise both dedicated resource and technical expertise and familiarity with the codes and governance processes. The review should look to address these disparities and create an active and level playing field for all market participants.
- 1.10. The reforms should primarily focus on ensuring that the industry enables the energy transition to net-zero. Considerations on how to minimise the complexity in certain codes are necessary. The code change process can often require months, sometimes years to implement changes. The code review should provide an opportunity to ensure the codes are more aligned to customers' needs and are sufficiently prescriptive, to mitigate the chances of them being overly complex and quickly becoming out of date, and to ensure that codes can quickly adapt to change to encourage innovation.

Do you agree with our proposed scope of reform? Yes/No/Don't know. Please explain. If not, which additional codes or systems do you think should be included/excluded?

- 1.11. Yes. We support the scope of the consultation and drivers for change. We also agree with the desired outcomes, to facilitate the energy transition while providing value for the end consumer. The reforms should also ensure considerations are made as to how to build regulation that serves for today and tomorrow; how to unlock consumer value at the right times from code reforms; and importantly how to manage increasing whole system interactions.
- 1.12. While we understand the Security and Quality of Supply Standard (SQSS) and Relevant Electricity Standards (RES) are currently under review through the 'Electricity Engineering Standards Review', however the SQSS operates under a form of code administration, the Code of Practice (CACOP) governance, it would therefore be beneficial to also include this within the code reforms.

Are there any codes or systems that we should only apply a limited set of reforms to? Yes/No/Don't know. Please explain.

- 1.13. Yes. The electricity technical codes, such as those which specify the safe operation and development of the networks; those codes which are subject to any EU exit and the requirements of the third energy package which have been incorporated into the GB Codes. While simplification should be avoided, consolidation might be possible under a whole system approach.

Do you agree that the four areas for reform are required? Please provide reasons for your position and evidence where possible.

- 1.14. Yes. The four areas for reform are important in setting the right framework to drive the industry towards net-zero, by enabling new technologies and removing barriers for new market entrants.

Do you agree with the two broad models outlined? Please provide reasons for your position and evidence where possible – further detail can be found on each model in the chapters that follow.

1.15. Yes. However, having the right composition of a strategic body will be important to ensuring decisions are aligned with policy drivers. It will also be important to define how the relationship between both the strategic body and policy makers will work in practice.

Which model do you believe will best deliver on our desired outcomes? Please explain. NB: – further detail can be found on each model in the chapters that follow.

1.16. Further detailed consideration is required to fully appreciate the implications of each governance model, however based on the information provided, Model one would best deliver on the intended outcomes. We believe it offers the opportunity for higher transparency for market participants which has the potential to drive improved standards through innovation and competition. Model one also prevents any one dominant view from prevailing, which may not be consistent with the strategic policy direction.

Do you agree with the changes to the role of code signatories we are proposing?

1.17. Yes. We recognise that, while industry led open governance has empowered a greater level of engagement in codes and been successful in many areas, it can lead to a slower pace of change and does not guarantee the proposal being developed in the interests of the end consumers. It is essential for future frameworks to deliver value today, but to also build facilitate future fully decarbonised energy system.

Do you agree there is a missing strategic function for codes development in the energy sector and that introducing a strategic function with the responsibilities outlined in chapter 3 is the best way to address the lack of strategic direction? Yes/No/Don't know. Please explain. Who is best placed to fulfil the strategic function and why?

1.18. Yes. This is why we launched documents such as the 'Gas Markets Plan' to consider the changing energy system over the medium term to better understand what potential reforms could be required as we decarbonise. We support the need for more strategic direction within the code development process: a forward looking, policy-guided approach to managing the code frameworks which separates decision making from the industry, should be a key outcome for this review.

1.19. In the absence of creating a formal body, we believe that Ofgem would be best placed to lead this, maintaining a strategic focus and ensuring alignment with broader changes across licences and the wider industry. The right composition of this new group is vital to ensure that it has the expertise it needs, that decisions are aligned with policy drivers, and that no one dominant view stifles progress.

Do you agree with the objectives and responsibilities envisaged for the strategic function, and are there any additional objectives or responsibilities the strategic function should have?

1.20. We are broadly supportive of the strategic bodies proposed responsibilities, however it will be important to ensure the body is fully independent, has the right resource and capabilities and clearly defined roles and responsibilities.

How may this new function potentially impact the roles and responsibilities of other parts of the framework? Do you foresee any unintended consequences?

1.21. It is important that any new bodies have the necessary capabilities and resource to ensure that the stated benefits are fully realised in the most practical manner.

What are your views on how the strategic direction should be developed and implemented (including the option of establishing a strategy board to aid engagement)?

1.22. The composition of the strategic body will be important to ensure the direction is aligned with policy drivers and realistic aims are set for the code managers, and therefore requires the right practical understanding.

Do you agree that in addition to the current responsibilities that code administrators have, that the code manager function should also have the following responsibilities? a. identifying, proposing and developing changes (analysis, legal drafting etc.), including understanding the impacts; b. making decisions on some changes, or making recommendations to the strategic body; and c. prioritising which changes are progressed. Yes/No/Don't know. Please explain.

1.23. Don't know as we would require further information outlined on the scope of the roles. However we need to ensure that any new bodies have the right resource, expertise and information to make informed decisions and recommendations.

What is the best way to ensure coherent end-to-end changes to the codes and related systems? For example, is it through having end-to-end code and system managers?

1.24. Incorporating end-to-end changes to codes and systems has the benefits of having consistency of involvement, and could enable organisational efficiencies and economies of scale. However nuances such as how the UK Link gas systems are owned and operated should be accounted for when incorporating systems into a code manager system.

Should the approach differ on a case-by case basis (i.e. depending on the code or system in question)? Yes/No/Don't know. Please explain.

1.25. Don't know. However, we believe that it is important that the approach is clearly defined, based on evidence, and ensures industry collaboration where necessary.

Do you agree that the code manager function should be accountable to the strategic body and that this should be via a licence or contract? Yes/No/Don't know. Please explain. Please note questions 19- 26 only apply in respect of Model 1 (code managers and a strategic body).

1.26. Yes. With the existing licence arrangements in place, it would be beneficial and efficient for these to evolve rather than create something new. This should include strengthening enforcement and/or incentive powers to ensure code managers discharge these duties sufficiently.

1.27. The code manager function needs to strike the right balance between being adequately resourced and spending efficiently.

Are there more effective ways that the code manager function's accountability to the strategic body could be enshrined other than in a licence or contract? Please explain.

1.28. No. However, if there is a requirement for one participant to do this work on behalf of the whole industry then it could be beneficial to introduce an element of 'tendering' for this work, on a periodic basis. Clearly defined objectives should be set out for those 'bidding' for this work to ensure they are fit for purpose, and ensure the right balance between the commercial impact on participants and actual benefits to consumers.

Do you agree that we should not consider further a model whereby the code manager function is accountable to industry? Yes/No/Don't know. Please explain.

1.29. Yes. In the current framework, there is often a risk of one dominant view prevailing, which may not be consistent with the strategic policy direction. It is rare that code changes do not have 'winners and losers' and it should not solely be for the industry to decide on this, but for their informed opinions to be factored into the process and for the code manager function to engage with industry in a transparent and open way.

Do you have views on whether the code manager function should be appointed following a competitive tender process or other competition? Yes/No/Don't know. Please explain.

1.30. Depending on the number of interested parties, a competitive tender may or may not be possible. Nevertheless, we support the intent of tendering to ensure that the best possible party or parties are appointed to carry out this role. It would enable competitive bench-marking to be undertaken to compare parties bidding to do this work, as well as compare incumbents to possible alternatives in the future. It is crucial though that this tendering exercise focuses both on cost and quality of service.

Do you think the code manager function should be established by the strategic body creating a body or bodies? If the code managers were established in this way, would we need to consider any alternative approaches to funding or accountability? Yes/No/Don't know. Please explain.

1.31. Don't know. It would depend on the composition and role and responsibility of the strategic body.

In terms of establishing/choosing the code manager function, do you agree that we should not consider further: a. requiring an existing licensee to become the code manager; and/or b. requiring a licensee (or group of licensees) to create the code manager? Yes/No/Don't know. Please explain.

1.32. Yes. The existing code administrators should have the opportunity to tender to continue to provide the service but should not by default be the incumbent or be mandated to tender.

What would be the most effective way to ensure the code manager function offers value for money (for example, through price controls or budget scrutiny)? More broadly, what is the right incentive framework to place on the code manager function? Please explain.

1.33. Licence obligations work very well in the industry to manage outputs and incentivise good behaviours. A good example of how this currently works is how Xoserve engage with stakeholders to produce their annual business plan.

Are there any factors that: a. would stop parties (including code administrators) from becoming a code manager? b. should prevent parties from becoming a code manager (e.g. do you agree that licensees should not be able to exercise control of the code managers)?

1.34. Code management should not be able to be exploited to further the strategic aims of any organisation charged with performing the role. We see no reason to exclude existing Code Administrators from evolving to become Code Managers, subject to a test of vested interest.

How should the code manager function be funded (for example through licence fees or by parties to the code(s))?

1.35. Accession or participation fees might be an option here. It seems fair that the industry helps to fund these activities (though not entirely) either via charging arrangements, or by utilising fees for acceding to the codes and using code management services.

Are there any quick wins that could be realised in terms of code consolidation and simplification?

1.36. We acknowledge some sections of code need to contain significant detail, for example on safety, however we welcome the opportunity to explore how to simplify and consolidate the codes, which are often a barrier to smaller and new market participants.

1.37. We believe that this aspect of the review ambitions could be bolder. There are large volumes of code text which can over-prescribes commercial activities and which could easily reside in legal agreements, such as connection agreements instead. This would encourage innovation among industry players, better enable the codes to be future-proofed and reduce the need for any minor code modifications to update these requirements on an on-going basis. This could also support in clarifying the obligations at transmission level for electricity, where there are two iterations of obligations between the ESO and customers, and the ESO and transmission owners. It seems appropriate for a team to review whether these duplications add any value to industry parties or could be consolidated.

1.38. Whole system consolidation of comparable electricity transmission and distribution codes is a quick win (Grid Code + D-Code + RES; CUSC and DCUSA). The transmission codes have been subject to iterative legal text change from multiple parties for some time, which has made requirements unwieldy and in some cases difficult to navigate. It would be beneficial to re-write the CUSC from a single author. This same would apply for the Grid code.

1.39. We are keen to explore opportunities to support simplifying and rationalising areas of the gas Uniform Network Code (UNC) and would welcome the opportunity to play a leading role on aspects of these reforms.

How many codes would best deliver on the outcomes we are seeking under these reforms?

1.40. The Gas regime does not have the same fragmentation issues as the power market and therefore some consolidation is possible but not necessarily a priority. Gas & electricity have many appropriate framework differences for practical and legacy reasons i.e. charging and connection processes.

1.41. We would recommend not having only one electricity code, as this could quickly become difficult to manage rather than a means for efficiency. A smaller number of codes is possible, which each have a clear focus. For example - Markets Code (consolidation of BSC; Grid Code; CUSC; REC); Connections Code (consolidation of CUSC; DCUSA; Grid Code; D-Code; RES); Charging Methodology (CUSC; DCUSA; STC); Network Operations Code (Grid Code; D-Code; STC; SQSS)

Which option (one code manager versus multiple) would best deliver on the outcomes we are seeking under these reforms?

1.42. We would advise one to ensure consistency of service and to better enable best practice to be formed. We agree that a fully resourced and empowered code manager could provide the compliance monitoring function effectively across the industry if there is clarity of responsibilities, transparency in the monitoring and enforcement process and a detailed appeal process

Which of our consolidation options would best deliver the outcomes we are seeking to achieve? Please provide evidence for your examples

1.43. There are only certain activities where user segmentation would be helpful. The priorities for consolidation should also consider whole system and level playing field.

Do you agree that the codes should be digitalised? Yes/No/Don't know. Please explain

1.44. Yes. We support proposals to create digitised codes. We believe this will aid greater access and transparency and drive a better market understanding and awareness of the codes process and procedures.

What role should industry have in monitoring code compliance or making decisions on measures needed to address any identified non-compliance?

1.45. We support the principle of providing further clarity of obligations on market participants and agree that a fully resourced and empowered code manager could effectively monitor compliance across the industry. However, compliance is not necessarily just for the code manager, monitoring and policing compliance should be appropriately divided for all parties with ultimate responsibility for dealing with any non-compliance also sitting with the appropriate body (eg. CM, Ofgem or network operator) within the proposed rules.