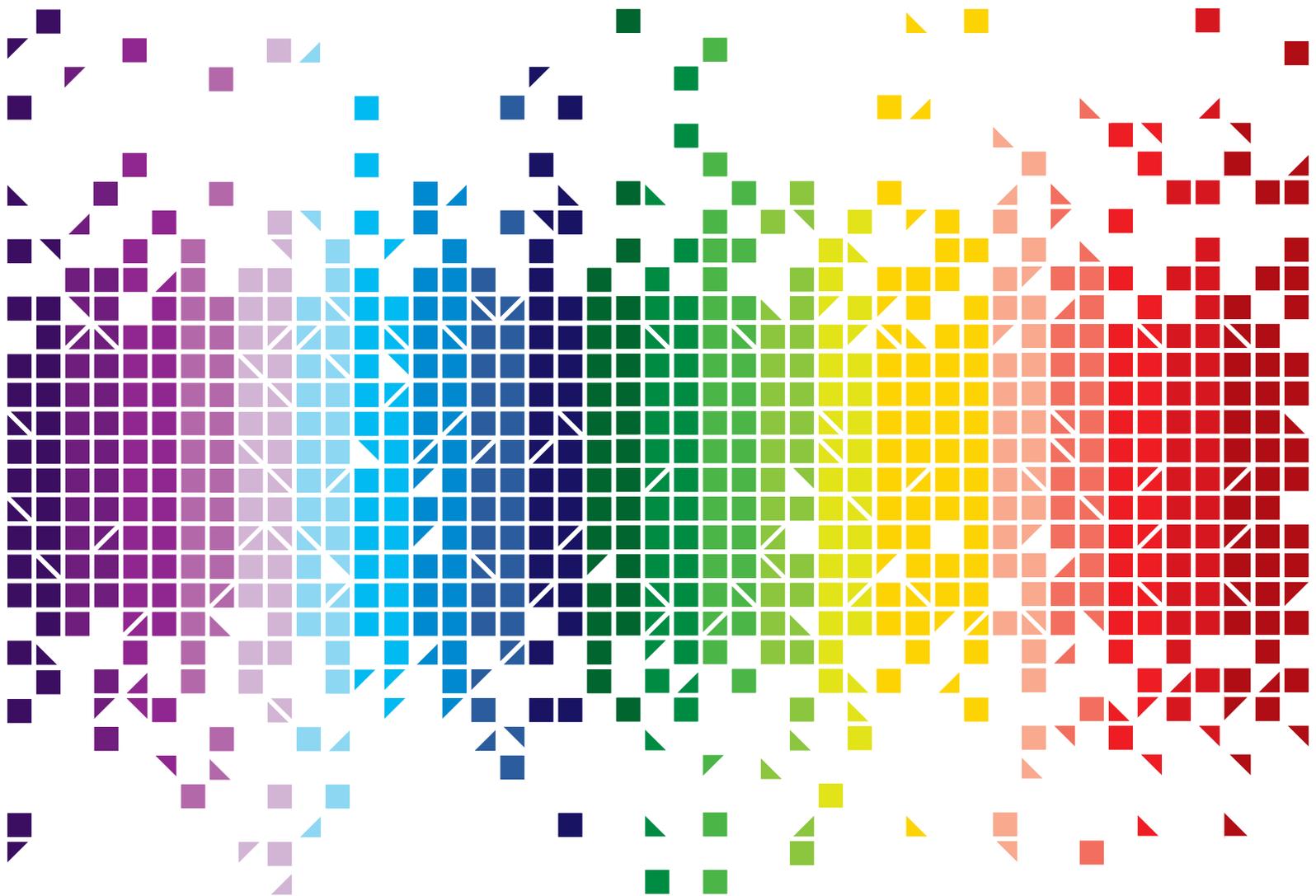


Transforming Code Governance Arrangements

A Way Forward





Why you should read this

Energy markets by their nature are complex. This is reflected in the supporting industry codes, agreements, and subsidiary documents (“codes”) that ensure energy market interoperability. Codes enable Government driven, consumer focused transformational initiatives to be implemented, as well as provide governance and procedures that support and afford rights to energy companies to ensure fair market practices prevail. To a large extent, codes have performed extremely well to date, contending with significant volumes of change and market reform initiatives. However, the unprecedented levels of change and the challenges this presents for energy companies, highlights the need for code governance reform to help make codes more accessible, consistent, and better coordinated.

As a Code Administrator for over 15 years, we have practical, working knowledge of code governance and understand the operational and technical code governance challenges faced by market participants. This means that we have developed a very rich understanding of the issues that are impeding the progress of good code governance practice. More than ever, it is clear that a joined up, more strategic approach to energy governance is needed.

This paper sets out an informed proposal to design a sustainable code governance approach that can be implemented within 18 months, one that deals with the challenges of today and yet robust enough to cater for 2020 and beyond. At its heart lies an industry Strategic Body that drives service improvements by advising on ever-improving best practice, and provides a critical strategic oversight of change to help tackle the issues surrounding code governance. Starting from the principle that the design of the Strategic Body should be framed and focused on new entrants (usually smaller/medium sized energy companies), will ensure that the approach is designed around the needs of all energy companies, meaning organisations of all sizes will benefit. Underpinning the Strategic Body is a reformed Code Administration Code of Practice (CACoP), which would include a Standard Code Model setting the blueprint for all codes to follow.

This paper sets out the market reform context, today’s code challenges, and proposes a solution for the way forward and the steps to get there, i.e. taking action.



Context

Energy market reform is driving an unprecedented level of market change. Over the past year there were almost 300 industry code changes raised across all the main codes, excluding individual agreements and the Smart Energy Code (due to go live early 2016). The backdrop can be framed under three main areas:

Three main areas invoking significant energy market reform

- Retail energy market investigation** Ofgem referred the retail energy market to the Competition and Markets Authority (CMA) on 26th June 2014, in order to investigate whether any feature of the market prevents, restricts or distorts competition. There have been various publications by the CMA to date, including Provisional Findings and a Notice of possible remedies. The CMA provisionally found that industry code governance gives rise to an Adverse Effect on Competition (AEC)¹. The CMA are due to publish their Final Findings by 25th June 2016 (if not before).
- Consultation on code governance** In June 2015, Ofgem invited responses to their open letter and held a workshop to consider its Code Governance Review (Phase 3). Its Initial Proposals were published on 23rd October 2015, setting out incremental proposals for code governance reform. These improvements focused on the Significant Code Review process, increasing self-governance changes, and reflecting on how the Critical Friend services and independence of chairs might be improved².
- Other major reform initiatives being undertaken in parallel** The following major reforms are being undertaken in parallel to the above: the smart meter roll out of 53 million devices by the end of 2020; faster switching reform and a new centralised registration system; transition to the low carbon economy; and the EU Third Energy Package, including the cascade of European Network Codes.

When taken altogether, it is clear the market is facing a challenging and wide reaching transformation. It is against this backdrop of transformational market reform that Gemserv proposes a solution, informed following our work with stakeholders, to ensure codes and their governance evolve.

¹ Available at: <https://www.gov.uk/cma-cases/energy-market-investigation>

² Available at: <https://www.ofgem.gov.uk/publications-and-updates/code-governance-review-phase-3-initial-proposals>



Today's code challenges

Industry codes have stood the test of time, and have supported the implementation of energy policy in line with the demands of today's energy market needs. However, energy market reform is driving an unprecedented level of market change. Market participants are feeling overwhelmed and this is driving an appetite to make code governance better able to cope with the increased levels and complexity of change.

Gemserv has been working for some considerable time to help objectively understand the cause of today's challenges, and to assess the ideas being articulated by various market participants. On 1st October 2015, Gemserv brought together a range of energy suppliers³ for a Gemserv Supplier Code Governance Forum ('Forum'). The objective of the Forum was to examine the key issues and critically assess various solutions.

We established that, market participants do not have a single view of market changes across codes, there are issues with prioritising change, difficulties getting industry participant engagement, and problems for market participants targeting their limited resources. These can be summarised as follows:

Five main issues of today's code challenges

Codes are...

- inaccessible** Code outputs are published using differing criteria, have differing objectives, websites hold code information in different places, and voting arrangements can drive a lack of engagement.
- too complex** They are too long, complicated, and not written in plain English.
- inconsistent** Language, terms, structures, processes and practices are different across codes.
- non-transparent** Codes, subsidiary documents, and workgroup outputs can be difficult to find, and processes can be embedded within the detail of the code making them difficult to interpret, cross reference and therefore unpick.
- uncoordinated** Cross code changes are not always fully integrated, code administration arrangements can be disjointed, and a lack of strategic oversight across change makes it difficult to prioritise.

Following our examination and assessment, Gemserv identified seven main solutions. These are described overleaf.



Seven main solutions to today's code challenges

- Strategic Body** To provide a strategic oversight of code governance and code change.
- Codes contain key principles** To ensure every code strives to achieve the same approach. The principles are: accessibility, simplification, consistency, transparency, and coordination.
- Reform CACoP** To provide improved governance for coordination across Code Administration.
- Code consolidation** Merging codes into either one or multiple codes.
- Code Consolidation** Merging codes into either one or multiple codes.
- Single Code Administrator** A single, over-arching Code Administrator to manage all codes.
- Increase Ofgem powers** Allowing Ofgem to raise code modifications, project manage code change, and/or modification timetables across all codes.
- Licence Code Administration** Licensing of Code Administration activities to drive greater accountability.

These solutions were assessed against the issues using three criteria:

1. The extent to which a solution resolved or improved the issues;
2. The time it would take to practically deliver the solution; and
3. A sensitivity test with respect to level of importance.

Table 1 shows that some solutions, although useful, did not sufficiently meet the criteria. For example, licensing code administration would not in itself solve the identified issues, although it provides the Authority with greater command and control capability. Also, increasing Ofgem's powers fails to resolve such issues as accessibility, and leads to possible conflicts of interest should Ofgem be both change modification raiser, reviewer and reporter to the Authority (for consent). We also acknowledge that energy market transformation may lead to some code consolidation (e.g. a single retail code) with consequential Code Administrator consolidation.

| Can solve... | Strategic Body | Codes contain key principles | Reform CACoP | Code Consolidation | Single Code Administrator | Increase Ofgem powers | Licence Code Administration |
|----------------|----------------|------------------------------|--------------|--------------------|---------------------------|-----------------------|-----------------------------|
| accessibility | ✓ | ✓ | ✓ | ✓ | | | |
| simplification | ✓ | ✓ | ✓ | ✓ | | | |
| consistency | ✓ | ✓ | ✓ | | ✓ | ✓ | |
| transparency | ✓ | ✓ | ✓ | | | | |
| coordination | ✓ | ✓ | ✓ | | ✓ | ✓ | |
| Total | 5 | 5 | 5 | 2 | 2 | 2 | 0 |

Table 1: Issues Mapped Against Solutions



The way forward

A strategic approach to code governance is lacking, creating unnecessary market risk and uncertainty. Also lacking is a better and more consistent approach to code standards.

Gemserv's solution deals with this by way of a Strategic Body. Evolving the existing cross code work group held under the Code Administration Code of Practice (CACoP) to help manage and oversee large scale code change would ensure that such change is effectively coordinated across relevant individual codes. Underpinning this is a significantly reformed CACoP, which would take the current CACoP as a foundation, retaining the elements which work, and improving those elements which do not work as well.

The reformed CACoP would house a Standard Code Model, and would also provide the governance to support the Strategic Body's Terms of Reference and its role in the strategic oversight of industry change. A reformed CACoP would also deliver cross code coordination activities such as an annual Cross Code Customer Satisfaction Survey to drive improvements and innovation, potentially replacing the individual codes' surveys.

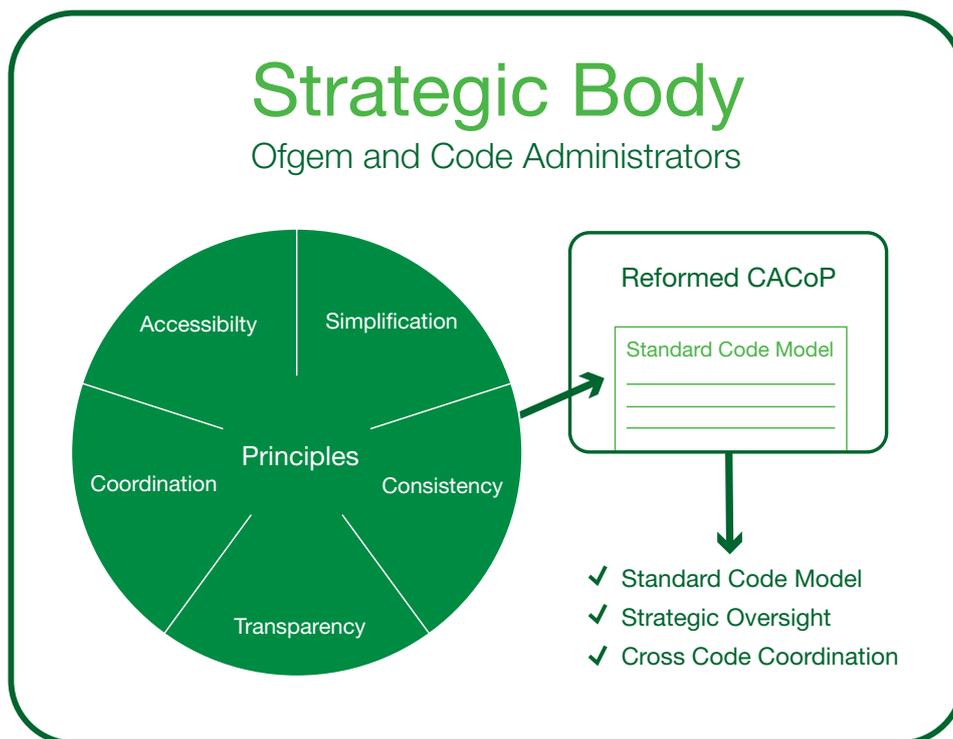


FIGURE 1: GEMSERV'S STRATEGIC BODY SOLUTION

The following section expands on these key elements of the solution i.e. the Strategic Body, the reformed CACoP, and the Standard Code Model.



THE STRATEGIC BODY

The Strategic Body builds on the existing cross code work group held under CACoP, reforming it to enable the Strategic Body to advise, set down best practice measures, improve code services, and provide a strategic oversight of code changes.

The aim of the Strategic Body is to drive improved code accessibility and engagement, promote code administration innovation, and secure cross code coordination for the benefit of all market participants (including consumer groups). An outline set of Strategic Body Objectives could be as follows:

Strategic Body Objectives

- | | |
|---|--|
| Provides a stronger mandate | To provide a forum with a clearer, stronger mandate where complex and cross code changes can be discussed in order to advise on coordination of change |
| Embeds Standard Code Model principles | Oversee the development, implementation, and management of the Standard Code Model principles, including consultation and engagement. |
| Provides a mechanism for Ofgem's strategic steer | To provide a means for Ofgem's strategic steer to be fully considered against the full breadth of code changes, and a vehicle to disseminate that understanding to Code Panels to help inform decision making. |
| Provides a cross code sounding board | To provide a cross code sounding board for any market participant that wrestles with code governance, while driving a continuous improvement ethos. |
| Produces a Joint Industry Plan | Produce consolidated code change plans to help market participants have greater transparency on future change. |
| Benchmarks and drives improvements | Oversee an annual Cross Code Customer Satisfaction Survey to help benchmark best practice and thereby drive further code governance improvements. |
| Improves code engagement | Advise on different codes' content and processes via dedicated code awareness sessions to allow greater accessibility and informed engagement. |

A key responsibility would be developing and implementing a Standard Code Model. The purpose is to embed the outcomes drawn from five code principles: accessibility, simplification, consistency, transparency, and coordination, within all codes. The Strategic Body would consult with the industry to help inform strategic decisions. The Strategic Body would provide strategic oversight across industry code change, guiding and informing, such that codes can make judgements and decisions on a more informed basis. Decision making around priorities and code changes could be retained within individual codes, albeit heavily informed by the strategic steer.



Notwithstanding the above, the solution must be defined and agreed upon as part of an industry consultation on the full solution. The key aspects for consultation would include:

- The Strategic Body mandate and its role: for example, decision making boundaries and its relationship with Code Panels;
- The Strategic Body constitution: for example the extent to which its make up should comprise of just Code Administrators and Ofgem, just industry parties, or a representative mix of all relevant organisations perhaps making use of existing Code Panel chairs or representatives, or some other selection/invitation approach;
- Compliance with the Standard Code Model: this would include detailing the code principles, how they should be applied and mandated; and
- Change prioritisation: what rules and/or objectives would be applied by the Strategic Body when balancing priorities for complex code changes and decision making within individual codes and in what form this should be communicated.

Irrespective of its constitution, costs could be controlled and overseen by the existing Code Panels/Executives via existing cost recovery mechanisms and financial control procedures. As such, Code Administrator costs would continue to be bound by these codes for cost recovery purposes.

REFORMED CACoP

The reformed CACoP would build on the 13 principles which currently exist in the CACoP. The reformed CACoP would:

- Detail the terms of engagement of the Strategic Body, its role, consultation approach, outputs etc;
- Define the purpose of the Standard Code Model, and applicability to individual codes;
- Outline requirements for a Consolidated Code Forward Work Plan, drawing from individual code plans, setting standard reporting practices and culminating in a cross code Joint Industry Plan to provide a 'plan on a page' oversight of change;
- Setting the requirements for codes to deliver code education/awareness sessions and materials, promoting joint code sessions for market participants where possible;
- Promote the development of cross code outputs including 'how to' guidance documents; and
- Promoting cross code innovative practices to improve efficiencies and services.

Subject to consultation on its eventual mandate, the reformed CACoP should ideally have a robust compliance mechanism applicable to, and consistent across, all codes. For example, section C7 of the Smart Energy Code, which sets out very clearly how compliance with CACoP must currently be met.



STANDARD CODE MODEL

The Standard Code Model is a blueprint for all codes, setting out common processes, templates, and commonly agreed rules. It embraces and defines the key principles that would drive accessibility, simplification, consistency, transparency, and coordination across all codes. The Standard Code Model would be developed as a Schedule to the reformed CACoP.

The Standard Code Model Principles (and examples of their application)

- Accessibility** Organisations can readily access and use Code Administrator services and outputs which include: helpdesk access; Critical Friend approach; oversight of cross code changes; consistent and timely forward looking code work plans; user friendly change documents (e.g. use of redesigned templates); and optimal change decision making practices, e.g. code party voting model/practices.
- Simplification** Website design based upon ease of access and ease of navigation; simplified language used within codes where possible; clarity of industry terminology where it is required i.e. less jargon; and a set of common definitions across codes.
- Consistency** Common templates for certain key processes; consideration of common cross code change practices, change documents, and impact assessment processes and forms; standardisation of code structures (where practical); consistent website navigation; and possibly consistent business process modelling standards.
- Transparency** Best practice guidance such as publication rules to ensure availability and accessibility balanced with confidentiality requirements; and application of established standards (certified or otherwise) e.g. ISO 9001 (Quality Management), or ISO 27001 (Information Security Management).
- Coordination** Building on Principle 13 of CACoP to deliver enhanced cross code coordination and innovation behaviours.

CONSOLIDATED CODE FORWARD WORK PLAN AND JOINT INDUSTRY PLAN

Many codes already provide forward looking plans in various formats, displaying different content, and delivered to different timescales. Individual code plans however, may not help some parties, as this approach can exasperate the volume of documents they must review. Introducing a consistent approach, and ensuring plans are accessible may help, and could improve engagement.

A publicly available Joint Industry Plan covering the high level changes across all codes may be of benefit in highlighting the key changes being progressed across all code activity, and providing transparency around the pinch points, risks and key dependencies over the next three years. It would be a 'plan on a page' showing current and upcoming change across the industry. This live, dynamic, Joint Industry Plan would help the Strategic Body consider what, if any, observations it may wish to flag to individual Code Panels for their further deliberation (e.g. where further cross code liaison might help market's deliver a more efficient outcome). The



Joint Industry Plan would be informed and underpinned by a Consolidated Code Forward Work Plan, produced via input from each code and agreed by the relevant Code Panel, detailing all the key changes being progressed in the next three years along with a red-amber-green status for each change. The Consolidated Code Forward Work Plan would follow a format agreed with the Strategic Body, so that each code uses a uniform template, building upon current best practice methodology. This means market participants have the benefit of a familiar layout, one that is accessible and simple to use, helping to inform on priorities, resources, and at an operational level e.g. system implementation planning.

ANNUAL CROSS CODE CUSTOMER SATISFACTION SURVEY

Ofgem under its Code Governance Review (Phase 3) (CGR3) exercise highlighted the need for a more independent performance assessment to be undertaken to measure the performance of codes. Embedded within the reformed CACoP, an annual cross Code Customer Satisfaction Survey could provide for an independent assessment across all codes, leading to easier and consistent benchmarking, greater transparency, and less 'respondent fatigue', making it simpler to conduct, evaluate, and report on.

The Strategic Body would be responsible for ensuring the survey is independent, low impact on market participants, and relevant to the services that are expected, e.g. how well a code supports key elements of Critical Friend, the timeliness of updates, and the efficiency with which it handles code changes. This could replace the individual codes' customer satisfaction surveys that currently take place, potentially saving money and effort from market participants.

By holding one cross code survey, benchmarking is more transparent, driving ever increasing service improvements. Results would be publically available, encouraging Code Administrators to improve upon best practice. It will also provide greater clarity around understanding market participants' needs, particularly given the amount of change in the industry, and will enable Code Administrators to share best practice to continually learn, improve and innovate.



Taking Action

Now is the time for code governance reform, particularly given the many transformation initiatives underway in the energy sector.

Gemserv's solution delivers tangible, practical reforms for code governance that could be fully operational within 18 months:

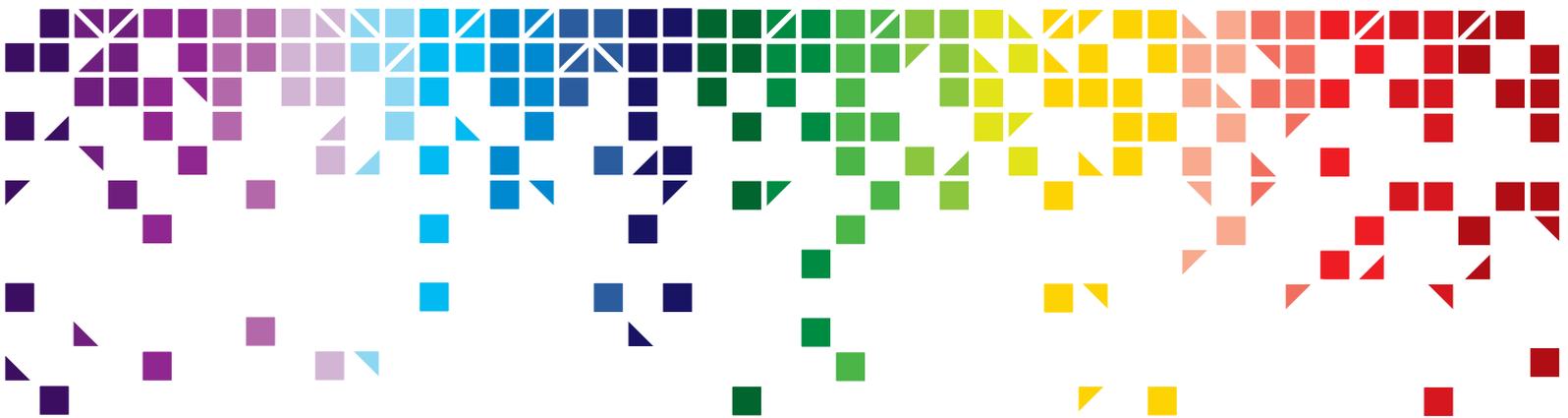
- ✓ The first step is to publically consult on the role, nature and makeup of the Strategic Body, the content of the Standard Code Model, and the scope of a reformed CACoP. This could be published for consultation by the existing CACoP cross code working group by summer 2016.
- ✓ The high level design could be published in winter 2016, with a 'go-live' date in spring 2017.
- ✓ The production of key outputs and code alignment with the Standard Code Model could be initiated within 6 months of 'go-live' (winter 2017).

The solution builds upon the existing cross code work group and the existing framework of the CACoP, ensures ongoing appropriate oversight and interactions with Code Panels/Executives, delivering an approach that is cost effective to deploy.

The solution deals with the challenges head on, and will deliver tangible benefits, aiding transparency, and provides consolidated and informed market perspectives from which smaller and mediums sized organisations will all benefit.

Ofgem would have a central role, providing a delivery mechanism for the revised Significant Code Review process being consulted upon under CGR3. Ofgem would be better informed on the forward change landscape across all codes, providing a critical oversight to an improved approach to cross code change.

Considering the way forward for transforming code governance arrangements sparks questions around code consolidation, particularly given the issues (as identified in this paper) around consistency between codes, and the market reforms underway (such as centralised registration system and its consequential effects on existing codes). As such, Gemserv will be assessing the best way forward for code consolidation, building upon the concept of a retail code which may include components as currently held within the Master Registration Agreement, Distribution Connection Use of System Agreement, and the Supply Point Administration Agreement.



The solution and ideas represented in this thought leadership are those of Gemserv Limited. They have been informed by the views and perspectives of those we have engaged with, including those that participated within Gemserv's Supplier Code Governance Forum.

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