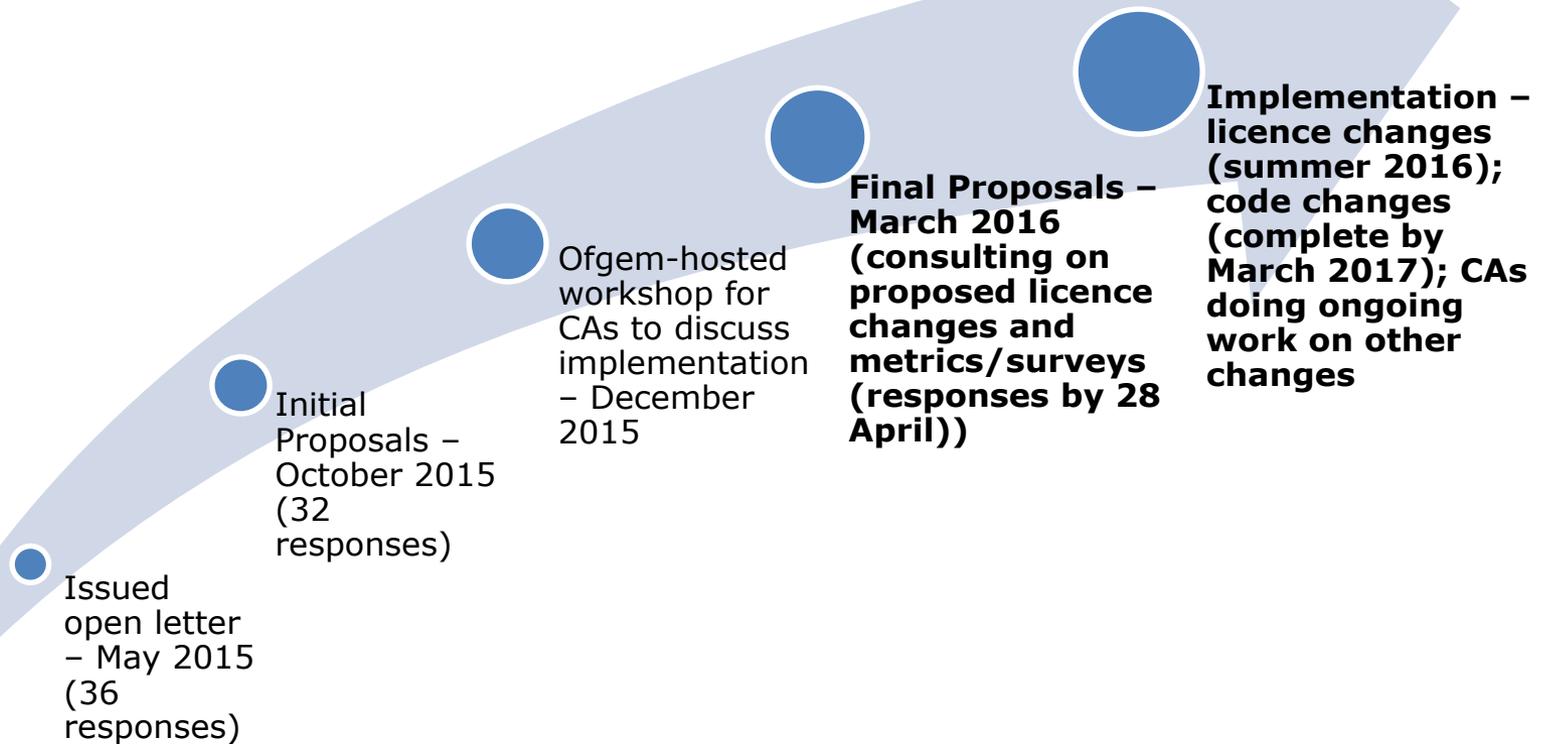


Code Governance Review – Phase 3

Ehi Obaye

Manager, Industry Codes and Licensing

ofgem



Our Final Proposals will make important incremental improvements while the new regime proposed by the CMA is developed and implemented. These changes are in the support the longer term aims of the CMA's proposed remedies, and are steps towards implementing those remedies.

Self-governance

- Change from “Why it is **not** material” to “ Why **it is** material”
- Code administrators and Panels well placed to produce high level guidance on materiality
- Applicable for all modifications

Charging Methodologies

- Scope to improve and make better use of charging modifications pre-modifications process

SCR

- Provide for an Ofgem-led collaborative end-to-end process, to include development of code modifications

Code Administration

- Critical Friend & CACoP – make it more visible
- Modification process – use of standard templates & joined up process for cross-code modifications
- Modifications register – single point of reference for all
- CACoP – benefits in improved performance reporting, which will help identify best practice
- Code panels – work with industry on forward work plans to make them work more strategically
- Code panels - to consider and to establish project management and assurance provisions

- **Licence Change**
 - Responses to initial consultation due 28 April
 - Statutory consultation (28 days) in May/June
 - Change in effect 56 days from decision (currently expected late summer 2016)
- **Reporting metrics and surveys**
 - Responses to consultation due 28 April
 - Expect to amend CACoP to introduce new reporting metrics, and for CAs to report data from Q1 2016
 - Currently expect to undertake first survey later this year
- **Code and process change**
 - We expect relevant licensees/industry to develop appropriate change to individual codes where required
 - Licence will require code change by March 2017
 - We expect code administrators to work together to deliver consistent cross code change and/or processes where required

We welcome the initiatives the code administrators are already taking forward to implement beneficial change. We would welcome ongoing collaborative working - with code administrators, the wider industry and Ofgem all playing a part to deliver change that will support the transition to wider reform proposed by CMA.

Our views on CMA's Code Governance proposals

Lewis Heather
Senior Economist

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The CMA have sent a lot of recommendations our way! We're now developing an overall implementation plan which we will publish in due course.

We're committed to implementing the CMA's remedies and implementing them promptly.

But of course there's a lot of work to do. Introduction of a new licensed regime will require:

- New legislation – we're talking to DECC about this
- Development of new licences
- Significant amendments to codes
- The design of new strategic modification processes – from DECC's strategic policy statement to code modifications and systems delivery

We want to consider where proposals could be fast-tracked. For example a consultative board is unlikely to require new legislation.

We'll work with stakeholders through a full consultation process to develop licences and arrangements. We strongly encourage your constructive engagement on this.

Scope:

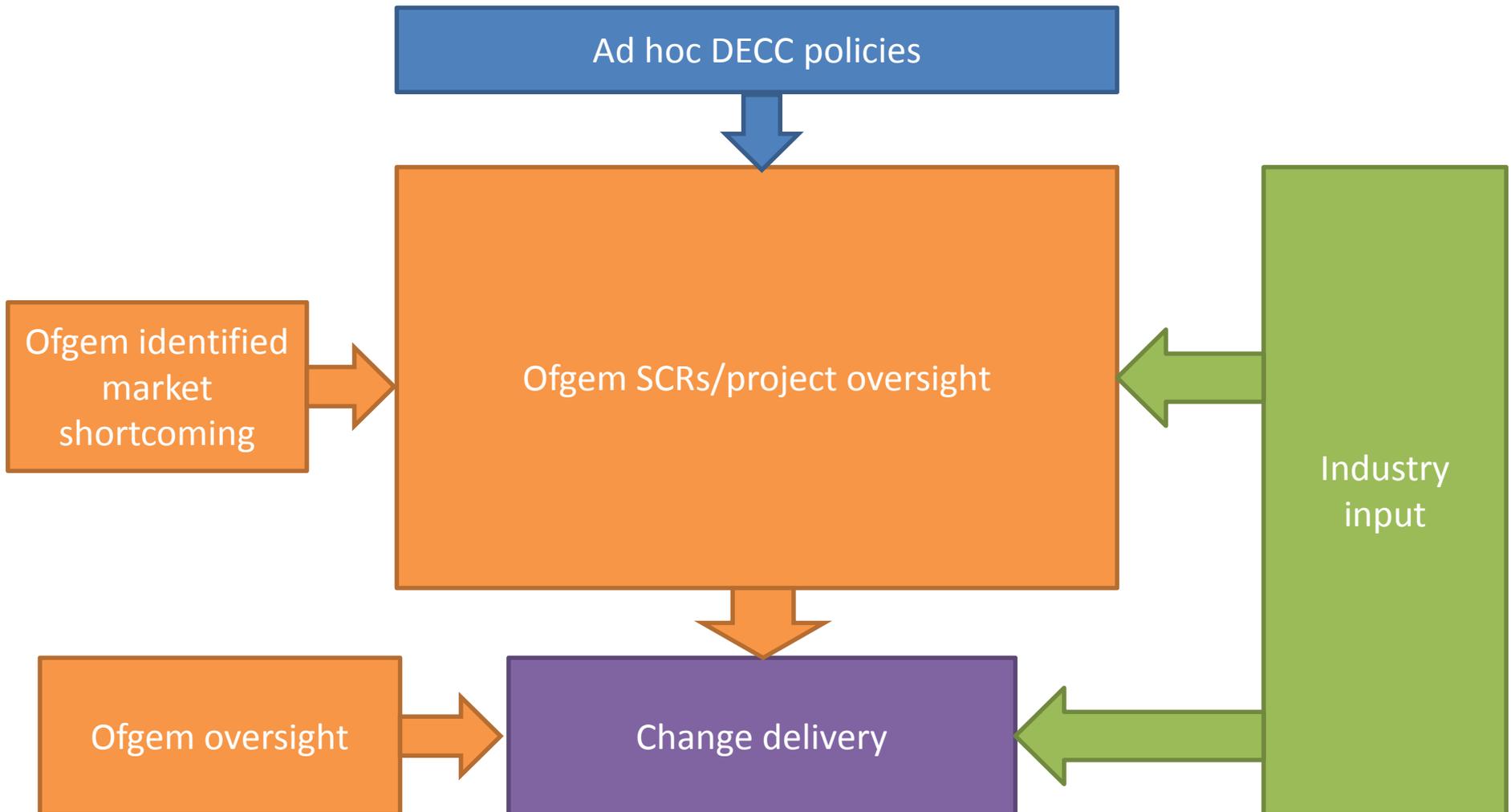
- Covers code administrators and 'delivery bodies'
- Directed at strategic modifications
- Relatively minor impacts on 'standard track' modification processes
- Covers gas and electricity across the full length of the supply chain (but we may consider prioritisation)

Ofgem strategic role:

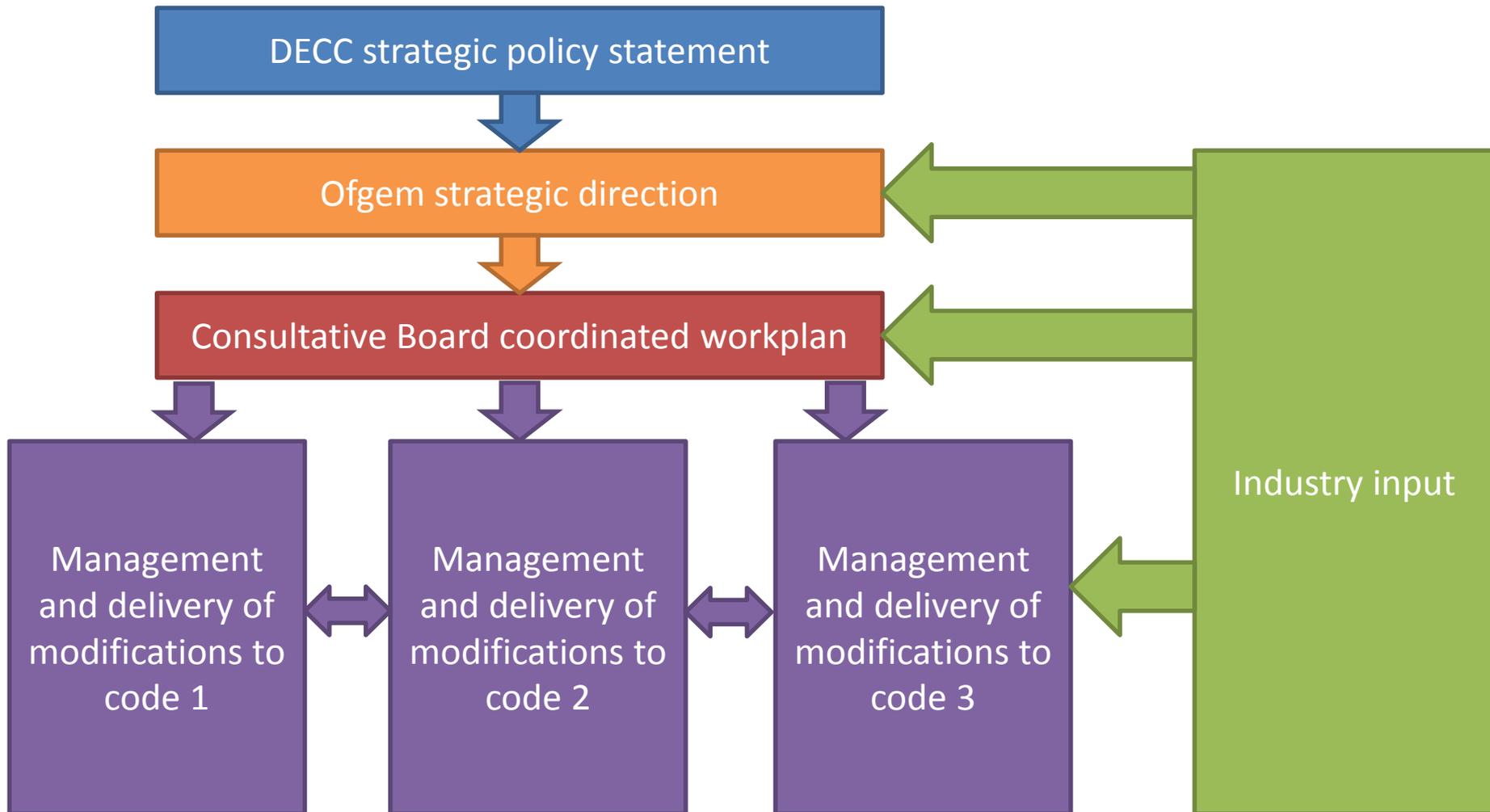
- Publish strategic direction
- Lead development of strategic work-plans
- Create a consultative board
- Undertake periodic reviews of code governance arrangements
- Operate licensing regime for code administrators and delivery bodies
- Backstop call-in power

Code governance bodies become code managers and deliverers:

- Become licensed
- Project manage strategic modifications
- Able to raise and prioritise code mods



How strategic change will happen under CMA remedies

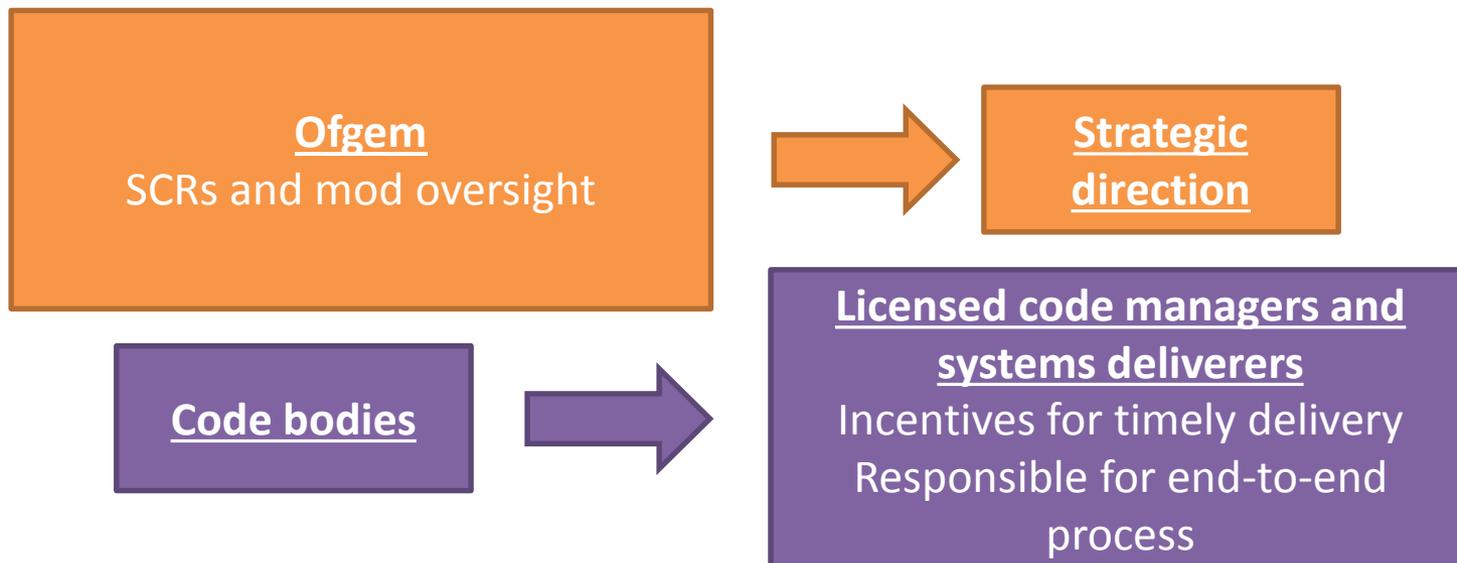


Enablers: new project management responsibilities

1. Project management: Code governance bodies take on responsibility for project management of strategic change.

CMA Proposals: Make code governance bodies into code managers and systems deliverers. They will have responsibilities for progressing timely and appropriate code change. Consistency will be introduced across the codes including governance and funding arrangements. Some incumbent models may need to adapt.

CGR3: Builds on proposals for code administrators to engage in forward work plans and have project management and assurance provisions in place.



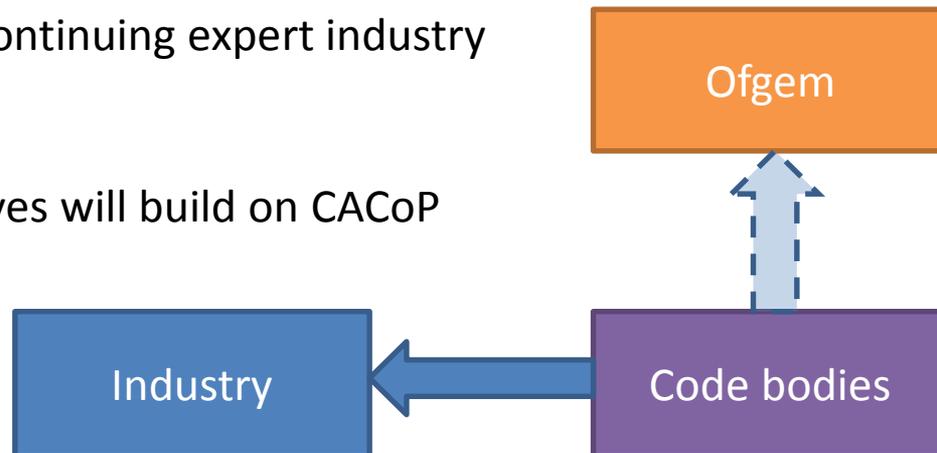
2. Accountability: Code governance bodies become accountable to consumers via Ofgem. They're incentivised to deliver in both user **and** consumer interests.

Some strategic objectives may conflict with industry interests. Ofgem have previously stepped in to deliver such strategic change through SCRs and greater oversight.

CMA Proposals: Support licensing of code administrators to introduce new lines of accountability to us (hence consumers). We have a partner to more effectively manage and deliver such change.

New accountabilities and incentives will reinforce user accountability and ensure a continuing expert industry role.

CGR3: Objectives and incentives will build on CACoP and performance reporting.

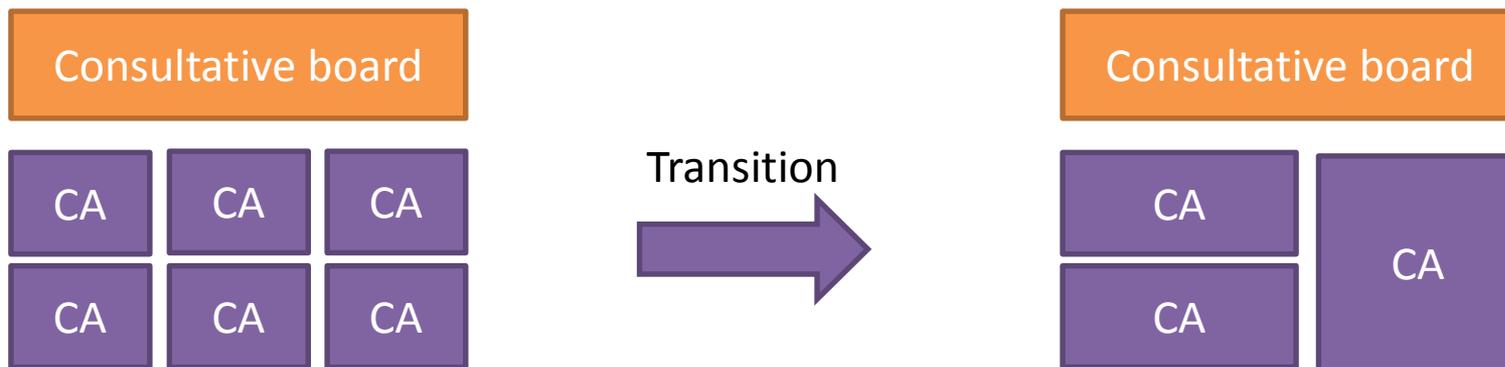


3. Coordination: Introduce quick wins for enhancing coordination with framework in place to allow consolidation over time.

CMA Proposals: Introduce consultative board to coordinate across the piece. Provide code bodies with opportunity to compete for business allowing economies of scope to be achieved.

Ofgem able to consolidate as part of future periodic reviews if necessary. Consider development of coherent industry change plan

CGR3: Builds on standardisation and coordination themes of proposals



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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.