

Code Governance Review and STC Paper by National Grid Electricity Transmission For 28th June 2011 STC Committee meeting

1. Background

In November 2007, Ofgem announced the Industry Codes Governance Review (CGR) which concluded March 2010 when Ofgem published their Final Proposals. Consequently in June 2010, Ofgem published their final licence modifications to require licensees to raise code modification proposals to implement the Code Governance Review Final Proposals. These primarily related to the Connection and Use of System Code (CUSC), Balancing and Services Code (BSC) and the Uniform Network Code (UNC). This paper has grouped the changes described in 6 areas:

- Governance of Charging Methodologies
- Environmental Assessment and the Relevant Objectives
- Significant Code Review
- Send Back Powers
- Self-governance
- Role of Code Administrator and Code Administration Code of Practice

The only Licence obligation relating to the Code Governance Review which was reflected in the STC related to the Environment Assessment of the Relevant Objectives. In order to implement this National Grid raised STC Amendment Proposal CA040: Environmental Assessment and the Relevant Objectives which was approved by the Authority in December 2010.

The STC Committee has briefly discussed whether there is any benefit from introducing any of the other CGR areas into the STC; this paper contains National Grid's initial thoughts on progressing some of the areas mentioned above. The STC Committee is invited to consider the issues highlighted in this paper and provide feedback on the way forward.

2. Code Governance Review Areas to be considered:

2.1 Governance of Charging Methodologies

The CCR Final Proposals stipulate that the governance of charging methodologies should be open to industry members and not restricted to the owners of those methodologies.

The owners of the existing TO methodologies are parties to the STC and therefore it is envisaged that no further action is required in this area.

2.2 Environmental Assessment and the Relevant Objectives

The Final Proposals stipulate that an evaluation of the quantifiable impact of an Amendment Proposal on greenhouse gas emissions needs to be conducted when preparing and consulting on an Amendment Report, where the impact is likely to be material and in accordance with guidance issued by the Authority. As stated above, STC Amendment Proposal CA040: Environmental Assessment and the Relevant Objectives was raised, approved and implemented by the Authority in December 2010.

No further action required.

2.3 Significant Code Review (SCR)

Due to potential changes which may be required from European Legislation or changes in energy goals from the government it is important to be able to facilitate significant code changes in a timely and efficient manner. The CGR detailed a Significant Code Review process to be adopted.

Currently there is no concept of an SCR within the STC or within Condition B12 of the Licence. However, National Grid anticipates that, as the Authority initiates a SCR, this will potentially have significant cross code impacts and that any consequential changes required within the STC will be raised via an Amendment Proposal using the normal STC governance route. It should be noted for the CUSC and UNC that whilst an SCR is in progress any Modifications raised in the SCR scope will not be allowed to progress without the specific consent of Ofgem.

No further action required.

2.4 Send Back Powers

The aim of the send back process introduced into the CUSC, BSC and UNC enables the Authority to send back an Amendment Report to the Panel/Committee in circumstances where the Authority considers that it is unable to form a decision based on the content of the report owing to an insufficient assessment, incorrect legal texts or other technical issues.

Currently there is no concept of a send back process within the STC and, should one be adopted, the Authority will need to consider whether a Licence change is needed. National Grid considers that a send back process is currently not needed within the STC, provided that the Amendment Report developed in the Assessment and Report phase, collating information, is of sufficient quality enabling the Authority to make a determination without the need for the Amendment Report to be returned.

No further action required at present, but may need revisiting in the future.

2.5 Self Governance

The CGR implemented a Self-governance process within the CUSC, BSC and UNC to improve the existing code arrangements. Where it is determined that an Amendment Proposal will not have a material impact in line with a defined criteria then the Amendment Proposal will require the Panel/Committee, rather than the Authority, to decide whether to implement.

Currently there is no concept of Self-governance within the STC and therefore will require both Licence and code changes to enable Amendment Proposals to be implemented/not implemented in line with the Committee's final determination. However there are potentially a number of options within this area to progress non-material Amendment Proposals that should be considered:

Option 1: Consent to Modify

Limited housekeeping changes have been progressed via consent to modify process set out in the Licence Condition B12 7 (b) (iii). In the past, this route has been used for correction of typographical or number errors which do not warrant a consultation but still requires the Authority to make a determination.

Option 2: Replicate the CUSC Self-Governance solution

The Committee may consider introducing a self-governance process which replicates the CUSC solution as there may be a need for a process for Amendment proposals which are more than correction of typographical or number errors but are deemed to be non-material. By introducing a self-governance route this will avoid involving the Authority in addressing and deciding on non-material changes whilst giving the Committee increased ownership of the governance process.

To introduce this would require changes in the Licence and the STC to reflect that the Amendment Proposals may be considered for Self-governance.

Option 3: Introduce a simplified Self-governance process

This option would require the self-governance solution implemented by the CUSC to be reviewed with the aim of **simplifying** the process to determine which principles within the self-governance solution are needed within the STC/Licence. It is expected as a minimum a Licence change will be needed to state that when an Amendment Proposal is determined to be self-governance, it will not require a direction from the Authority.

Option 4: No change to Amendment Process

Continue to progress “house-keeping” changes via the existing Amendment procedure route which will require the Authority to make a determination.

At present the self-governance regime implemented within the CUSC, BSC and UNC are undergoing some minor changes to clarify the process. Since the introduction of CGR, only 2 Modifications have followed a CUSC self-governance route. It may be prudent to wait until the process is fully embedded within the other codes and monitor the STC Amendments to see what potentially could have gone through a self-governance process and complete a cost benefit analysis prior to making any changes.

2.6 Role of Code Administrator and Code Administration Code of Practice

As part of the CGR the role of the Code Administrator was reviewed and the Code Administration Code of Practice (CACOP) was created to establish best practice for code administration and encourage participation from those involved in the energy business.

National Grid has reviewed the CACOP and considers that there is no requirement to establish an administrative body called a “code administrator” or recognise the existence of the Code Administration Code of Practice within the STC as many of the duties and functions of the “code administrator” are currently completed by the STC Committee Secretary.

National Grid has reviewed the principles contained in CACOP to see if, from a best practice point of view, whether it could be beneficial to make to the STC. We initially request the STC Committee’s thoughts on the areas below:

- An independent chair: Currently, within the STC, the chair of the Committee is appointed annually with agreement with other parties but does not have a right to vote at any Committee Meeting. It should be noted with the introduction of Self-governance within the CUSC the independent chair has a casting vote. The process of appointing an independent CUSC Amendments Panel Chairman is currently underway and the STC Committee may wish to wait until this has been completed.

In the event that the STC retains its current processes, views are sought on how the position is rotated annually.

- Changing Terminology: Following Licence changes, the terminology in CUSC, BSC, and the UNC has been updated to be consistent with the CACOP. At present the STC terminology is consistent with terms utilised in the Licence within Condition B12 but is not consistent with the other Codes e.g. Committee ↔ Panel, Amendment Proposal ↔ Modification. Views are sought on whether a Licence consultation would be initiated in this area to change the terms.
- Legal Text: CACOP principle 9, if the Committee determines that the legal text changes required cannot reasonably be considered to be minor, then the Committee can instruct a further consultation on the revised text. The STC

currently does not permit a further consultation on revised text which has had substantial changes made to it.

3. Next Steps

Feedback on the issues highlighted in this paper from STC Committee by 12th July 2011. National Grid, following feedback, will review the Self-governance options further and look to develop an STC Amendment if appropriate for discussion. National Grid will also consider the STC Committees thoughts on CACOP and in particular feedback on the independent chair, changing terminology and legal text and begin to develop a way forward.