Technical standards in the Market Framework

For ADE workshop
Purpose of today

Contents

What we mean by technical standards and assurance framework?

The case for technical standards

Where are we today?

Session 1: Scope, spec and operation

Session 2: Governance

Questions for discussion

Session 1
• What is the subject of assurance?
• Where do we need prioritise standards development?
  Across:
    - Works
    - Organisation activities and competencies
    - Compliance processes

Session 2
• What role for Government and regulator in scheme rules?
• How to balance industry expertise with independence?
• How far are Energy Code Governance proposals applicable to heat network sector?
Technical standards and assurance framework

Outcome
Consumers, industry and government have confidence that networks are designed, built and operated to a set of standards that promote good outcomes.

What is in scope of standards and assurance rules
• How processes (DBOM) should be done
• Competence of organisation and staff involved in undertaking works
• How do we determine compliance? Who determines compliance?
Background: the case for standards

Inadequately designed, built and operated heat networks are causing consumer harm:

- Higher prices
- Inability to reach and maintain comfort
- Poor reliability

Generally leading cause of complaint according to Heat Trust

Heat Trust Annual report 2020
Background: the case for standards

**Industry benefits** to introducing technical standards and assurance regime:

- Systems perform as expected
- Lower install and lifetime costs
- Better performance = smaller compensation payments
- Better reputation supporting growth
- Facilitates training programmes
- Can provide simplicity and confidence in procuring contractors and equipment

**Gov strategic benefits**

- Decarbonisation
- Interoperability
- A vehicle for innovation
#### Where are we today

<table>
<thead>
<tr>
<th>Theme</th>
<th>Progress / position</th>
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<tbody>
<tr>
<td>Regulatory requirement</td>
<td>• Mandated standards for all networks (different for new and existing)</td>
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<td>• Enforcement: Linked to regulator general authorisation regime</td>
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<td>• Compliance: Assurance scheme (eg TP certification)</td>
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<tr>
<td>Scope, spec and operation</td>
<td>• We should build on CP1 2020</td>
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<td>• BSI review of standards landscape</td>
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<tr>
<td>Governance</td>
<td>• Consider benefit in maintaining optionality in long term</td>
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<td>• Active gov support in near term for standards and scheme development</td>
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Today’s focus
Indicative roadmap

2021

- Future consultation on MF
- Work rules / CP1 development
- Governance set-up
- Short term governance

2022

- Opportunity for future consultation
- Contractor rules development
- Compliance process development
- Compliance & certification required as part of MF for new networks
- Ongoing rules development

202X-

- ...for existing networks
- Pilots / voluntary
- Scope case for contractor rules
- Scope case for standard compliance

Event title
1. Scope, spec and operation of assurance scheme
High level assurance framework

**Technical standards**

**SCHEME OWNER(S)**
- Set rules e.g.
  - Works
  - Contractor
  - Compliance process

**SCHEME DELIVERY**
- Assessor(s)

**SCHEME COMPLIANCE**
- Heat network
  - DBOM’ed within compliance framework.
  - Ofgem require compliance as part of General Authorisation regime

Assessor may assess compliance with all or aspects of rules. Could be delivered by accredited certification bodies, or other process eg registration process.
High level assurance framework

1. What should be assured

2. What are the priorities?

Set rules e.g.
- Works
- Contractor
- Compliance process

Assessor(s)

SCHEME DELIVERY

Heat network

SCHEME COMPLIANCE

SCHEME OWNER(S)
What is assured?

Options (not exclusive)

<table>
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<tr>
<th>Heat network</th>
<th>Heat network contractor</th>
<th>Individuals</th>
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<tr>
<td><em>A heat network is compliant if...</em> The network itself has been certified to have been designed, built, operated, and maintained in accordance with works standards.</td>
<td><em>A heat network is compliant if...</em> The organisation who carried out the heat network works has been certified to do so (i.e., right competence and can deliver in line with works requirements)</td>
<td><em>A heat network is compliant if...</em> The people involved in certain tasks have been certified</td>
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Considerations

- Heat network contractor approach reflects approach taken for MCS, ECO, National Electricity Registration Scheme
- Which gives most confidence in performance of network
- Which is simplest / most efficient

What are the groups’ views on these different options?
## Scheme rules

### Comments / current views

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<th>Works</th>
<th>Contractor</th>
<th>Compliance process</th>
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</table>
| Support for building on CP1  
Consensus on requirements vs guidance; prescription vs outcome  
Expansion to:  
• 4th and 5th generation networks  
• Retrofit requirements and associated tools  
• Decommissioning  
• Interoperability; carbon; unbundling; elec system services | Rules around  
• Designated roles and competency requirements  
• Risk and quality management processes  
• Insurance | A central compliance process would standardise how Cert Bodies undertake assessments, and could embed proportionality. Could include:  
• Competence of Cert Body (and who assesses them)  
• Site inspections and sampling  
• Information/documentation requirements  
• Surveillance |

### Questions

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<th>Works</th>
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<th>Compliance process</th>
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</table>
| Where is compliance highest priority (likelihood/materiality of non-compliance)?  
Where is flexibility most important (ie avoid prescription)?  
Agree with expansion suggestions? Additional?  
Streamlining opportunities? | Where are the skills gaps?  
Which works need to be delivered by competent staff?  
Good practice today?  
Lessons & read-across from other sectors? Eg MCS, NERS | How effective are currently used processes (eg evidence packs)?  
How much can be done remotely/desk-based?  
Role for on-site inspections?  
Different processes for different network types or scales?  
Lessons & read-across from other sectors? |
2. Governance
To date, industry has led design of works rules (CP1) with gov support
Industry recognise risk of contractor and compliance rules in absence of clear gov direction

Some Gov/regulator lever over scheme may be important for:

- Meeting strategic objectives, eg decarbonisation, interoperability
- Coherence with regulatory requirements

Options for public oversight:

A. No action, full industry responsibility
B. Sponsors scheme development with some principles for funding
C. Energy Code Review proposal (next slide)
D. Public ownership
Energy Code Governance Review

Key features of proposal

- **Scope**: market rules but also how physical electricity and gas infrastructure must be built, maintained, and operated (where at customer interface)

- **Ofgem proposed for Strategic function**:
  - Annually publish a strategic direction for codes, ensure it is delivered by code managers.
  - Approve material code changes and occasionally lead code changes.
  - Tender and license code managers, holding them to account.

- **Gov set strategy and policy statement**

- **Code managers**
  - Annual delivery plan based on the strategic direction
  - Manage the code change process, approve non-material changes
  - Monitor and report on code change outcomes.
Governance

Views on appropriate role for Government and regulator in scheme rules?

How to balance industry expertise with independence in standards bodies?

How far are Code Governance proposals applicable to heat network sector?