

**Code Reform - Electricity Systems Team**

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Dear BEIS and Ofgem,

**SSEN Transmission response to Consultation on the Design and Delivery of the Energy Code Reform**

This response is prepared on behalf of Scottish Hydro Electric Transmission Plc (SSEN Transmission), part of the SSE Group, responsible for the electricity transmission network in the north of Scotland.

SSEN Transmission is supportive of the review of existing energy code arrangements and welcome the opportunity to respond to the consultation by BEIS and Ofgem on the proposed institutional governance framework. Energy codes will be a critical enabler of net zero and any reform must positively contribute to our transition to a clear, more sustainable society.

We would highlight that there are a number of ongoing reforms within the energy industry which interlink with the ongoing energy code review. In direct relation to this consultation, we expect that the long-awaited Strategy and Policy Statement (SPS) will clarify the roles and responsibilities of Ofgem in relation to the delivery of government energy policy and will have a bearing on the proposals to introduce a strategic body, as well as the live consultation on the Future System Operator (FSO) which will underpin the option to create an Integrated Rule Making Body (IRMB) within an FSO. Uncertainty over the outcome of these workstreams makes it difficult to understand the full impact of these proposals. More widely, other industry reforms under consideration, such as introducing onshore and offshore competition, will require code changes. All reformed codes and licences must be in place before any of these reforms are implemented to ensure all participants are held to an equal standard and reliability and security of the network can be maintained. Ultimately reform in one area of the energy industry will have a bearing in other parts and therefore it is crucial that these ongoing reforms are considered holistically to mitigate any unintended consequences.

In responding to the consultation, we have set out in Appendix 1 the issues we have identified within the existing governance framework and our view as to the extent to which the proposals address our concerns. We have also provided a view on our preferred option.

We would welcome further engagement on this issue with both BEIS and Ofgem as the energy code review continues.

Yours sincerely,

Cara Dalziel

Senior regulation analyst

## Appendix 1

### Concerns with existing governance framework

Within the existing framework, SSEN Transmission has experienced instances where network licensees **were not involved in code changes that directly affected business processes and drive changes in the network**. For example, CMP330<sup>1</sup> initially took the view that Transmission Owners (TOs) would not be impacted, despite the modification looking to amend the definition of Connection Assets in section 14 of the CUSC to allow cable and overhead line lengths over 2km to be contestable where agreed between the TO and the User. While TOs were eventually involved, key early engagement was lost. A lack of involvement at the early stages can also lead to translation issues from one code to another. For example, in the past we have also experienced differences between what the CUSC says about securities and liabilities (Section 15) and the STC's less prescriptive references to these aspects. Once a CUSC change is in place the direction is already set, meaning that when it is eventually translated to the STC it can be difficult to make necessary changes. Whilst TOs are a non-CUSC party, our own investments are impacted by changes to the CUSC where our customers are impacted. For example, stakeholder engagement in Shetland, Orkney and the Western Isles tells us that securities can be a barrier to connection which ultimately has a bearing on our investment cases, however the current framework means that TOs have no involvement in this area.

We would also note that there is currently **no incentive to tie energy codes to policy, in particular decarbonisation**. The current framework lacks a strategic direction and there is no specific mention of net zero within the code objectives. This can lead to code modifications progressing that are of minimal consequence, do not necessarily drive improvements or take no consideration of net zero targets. This lack of direction will act as a serious blocker to delivering net zero in a timely and efficient manner.

Progressing code changes can often be a **slow, prolonged process** which can ultimately **put the timely delivery of net zero at risk**. For example, CMP298<sup>2</sup> was raised in early 2018 to help facilitate generation to be connected without going through multiple statement of work applications but low prioritisation has seen the modification be subject to ongoing delay. CMP288<sup>3</sup>, where explicit charging arrangements were sought for customer delays and backfeeds, was also initiated in early 2018. However, the modification is no longer being actively pursued by the proposed given the frustration at the slow progress. A more efficient and timely code change process is needed to support a quicker transition to net zero.

Lastly, we consider that commercial and technical codes and standards are consistently interrelated and a holistic approach to reform would be most effective. As such, we see a need to **review technical standards**, such as SQSS, to ensure they keep pace with the energy transition. This supports our belief that there is a requirement to prioritise the safety, security and reliability of networks (and other systems and services as relevant) within any reforms, and to maintain this as an overarching priority within the institutional framework and code evolutions that are progressed.

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<sup>1</sup> [CMP330: Allowing new Transmission Connected parties to build Connection Assets greater than 2km in length & CMP374: 'Extending contestability for Transmission Connections'](#)

<sup>2</sup> [CMP298: Updating the Statement of Works process to facilitate aggregated assessment of relevant and collectively relevant embedded generation](#)

<sup>3</sup> [CMP288: Explicit charging arrangements for customer delays and backfeeds](#)

## Extent to which proposals address concerns

### *Network licensee involvement*

We believe that duty holders, including network licensees, must have formal involvement in the process of code change, be able to approve code change, and hold any code manager function to account where a change impacts upon the safety, security, reliability and economic operation of networks. We believe that this would drive the best outcomes for customers and coordinated activity of licensees. As developers, operators, maintainers, and owners of the networks/systems, with significant experience, licensees are often best placed to provide guidance, views and technical expertise – particularly with regards to technical arrangements but also on practical implementation and wider aspects. We are distinct in the context of the wider energy industry as we have a duty to develop coordinated, economic and efficient networks in response to our licence obligations, rather than commercial advantage.

It is difficult to assess the level of involvement that ourselves, and our customers, will have under the new governance framework without further clarity on the role of stakeholders within the code change process. In any case, we consider that the code manager function should have a duty to have regular formal engagement with industry and licensees according to the specific code activity area in question to ensure that the integrity of the underlying networks, systems and services is maintained.

We would welcome further details on the proposed stakeholder advisory forums, including the specific role of stakeholders that sit within the forum, composition of each forum and how forum participants would be identified.

### *Providing strategic direction*

As we have noted, the proposed changes within this consultation will be underpinned by wider energy system governance reform that is currently ongoing. Nonetheless, we welcome the commitment to a more robust definition and translation of strategic direction into code evolution. We agree in principle that the SPS is the correct way to communicate government's energy vision, however we would note that updating the SPS every 5 years is not frequent enough. While recognising that there would be a requirement for the strategic body to consider ongoing policy developments, we would still suggest a more frequent review of the SPS is required given how fast-moving the policy landscape will be as we move towards a decarbonised energy system.

While the translation of strategic direction into code evolution is critical, it is not the only *raison d'être* of the codes. The codes exist primarily to maintain the safe, reliable, coordinated and economical system, networks and services which form the GB energy system. Given this, we believe that alongside the core strategic objectives the responsibilities of the strategic body and code managers must refer to the prioritisation of the safety, security, reliability and economic operation of the energy networks, systems and services in its terms of reference and decision-making processes,

As we have noted above, currently code modifications are raised without a clear tie to government policy and there can be an element of self-interest from proposers. We believe that this could be improved by the proposal that the code manager will have the ability to raise modifications themselves and prioritise modifications based on how they align with delivery plans and overall strategic direction. We would note that conflicts of interest would need to be carefully managed so that code managers cannot implement changes which may benefit themselves, and we would expect formal stakeholder engagement to ensure that parties who are impacted by the proposed changes have an opportunity to feed in.

While not covered within this consultation, we would highlight that there is a further opportunity here to ensure codes are not acting as a blocker to the energy transition by reviewing the code objectives. The energy system has moved on significantly since the current code objectives were set and a review could ensure consistency of decision-making and acknowledge the inter-relationships between codes. We would strongly welcome a review of code objectives, particularly to specifically include net zero as an objective.

### *Timeliness*

We do see that the proposals could result in some efficiencies in the timeline for progressing code changes. For example, having the code manager make recommendations on material code changes, or decisions on non-material changes, could be quicker than going through the current panel process. We would note however that while this could speed up the process, it may not necessarily improve quality in decision-making.

While we are supportive of making the code change process more accessible, we would highlight that the volume of code changes could increase significantly if all interested parties are able to propose code modifications. Even if code managers had a triage process in place, we still envisage that processing a large volume of code changes would be resource intensive and could ultimately result in delays to the change process.

Delivering code changes in a timely and efficient manner will be crucial to meeting 2030 targets and beyond. As we have highlighted earlier in our response, the current framework can often result in a slow, prolonged process. With that in mind it is crucial that implementation, not just of the reforms proposed within this consultation but in the context of the wider energy code review, are not delayed. Not only would this seriously impact our ability to decarbonise at pace, but there would be knock-on impacts to other industry reforms given that the energy codes underpin the electricity, gas and retail markets.

### *Reviewing technical standards*

We welcome that technical standards, such as the SQSS, will be brought into the scope of the energy code review. We believe this is crucial to ensuring that standards keep pace with the energy transition and that the safety, security and reliability of networks is prioritised. Additionally, we believe there could be an added benefit that inclusion of the technical standards could see better alignment between standards, transmission codes and distribution codes. This alignment would make it easier to design and deliver whole system solutions.

However, we would stress that given the highly technical nature of the standards that whoever takes on the code manager role must have the relevant technical expertise and understand the complexity of the issues they are leading on. We would note that industry involvement will be crucial here given the existing expertise within industry.

### **Preferred option**

Taking into account our views as to the extent to which the proposals will address our existing concerns, we do not believe that Option 2, where the FSO takes on the role of the IRMB, would be appropriate. The effectiveness of the strategic and code manager functions would be diluted and possibly compromised if combined, with serious questions as to how conflicts of interest would be managed. Instead, we would suggest that Option 1, where Ofgem is designated as the strategic body with the power to licence separate code managers, is the most appropriate model to take forward. However, it is important that all potential models are considered at this point for code managers rather than only licensing.

Under Option 1, the existing regulatory framework already includes some of the roles and responsibilities envisaged (although reaffirmation, definition and empowering of some responsibilities will be required) and we believe that it is appropriate that Ofgem should remain ultimately accountable for the licence and code frameworks. It will be crucial that code managers are appointed with the right level of expertise. Expert knowledge, experience, and historical performance within a specific code/code area in question should all be considered within the tendering process. Commercial and strategic independence and absence of conflicts of interest should also be pre-requisites for consideration of the role.

We would highlight that should Ofgem take on the role of the strategic body that it must be properly resourced and have the capabilities and expertise to carry out its duties. We already have concerns over the length of time Ofgem has taken to progress changes in the past and any additional responsibility should not create delays. While we expect the

SPS to provide a clear communication of government priorities, the energy landscape will be incredibly fast paced as we move towards a net zero world. As the strategic body, it will be essential that Ofgem keep in line and keep pace with wider energy policy and act as an enabler, not a blocker, to decarbonisation.