

Angela Love SEC Panel Chair
Smart Energy Code Company Limited
77 Gracechurch Street
London, EC3V 0AS

Lisa Charlesworth
Ofgem, via email
industrycodes@ofgem.gov.uk

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Ofgem Consultation – Energy Code Reform Implementation

Dear Lisa,

The Smart Energy Code (SEC) Panel is pleased to respond to the recent consultation on the implementation of Energy Code Reform. We have set out our response to the consultation questions below. We would be happy to engage further, to assist with any clarifications.

We agree with the broad approach to designate the codes and central systems that are within scope. We also believe it is right that the SEC is not consolidated with the Retail Energy Code (REC). We have previously commented on the high-level of ongoing development of DCC Services and the dual governance structures that are currently in operation between the SEC and the Department's Smart Metering Implementation Programme (SMIP). In addition, during the period under which the facilitating Energy Act powers exist, it is expected that the DCC licensee will be the subject of a tender process. In parallel, the process for managing the transfer of the Licensee, the scope of the new arrangements and impacts to SEC all need working through. The proposal to transition the SEC to the new regime later is therefore sensible.

We do not feel it appropriate to comment specifically on the costs for codes impacted by the consolidation proposals, however, given the models considered, we believe that vertical consolidation by fuel is pragmatic.

Regarding the proposals for Stakeholder Advisory Forums (SAF), Code Managers will need the support of Stakeholders to aid their decision making and to ensure there is trust in the decisions they make. The assessment of the options for the SAF outlined in the consultation document is reasonable and we agree the preference for Option 3 should provide the best platform to enable Code Managers to encourage and consider a wide set of views. The consultation process to date has only dealt with narrowing down options. There remain many unknowns around the process for appointing SAF membership, chairing, remuneration etc. In addition, the SEC Panel has wider duties beyond the SEC Modification process. We look forward to working with Ofgem ahead of the next consultation round to consider how the SAF will work relative to the duties required of the Panel in relation to the expectations of the Department.

We propose that any standardisation of Modification priorities needs to start with a review of each codes current processes. For example, under the SEC, in addition to the Urgent Modification process in Section D, Modifications are prioritised by the SEC Panel, via delegated authority and the Terms of

Reference of the SEC Panel Change Sub Committee. SECAS specifically present a view of the priority of a proposed Modification (agreed with the proposer) to the Change Sub Committee for challenge prior to the proposal accepted as a formal Modification for progression. It is also important to note that each of the codes have specific purposes and therefore any prioritisation process for modifications needs to have the flexibility afforded to individual Code Managers, to allow them to treat and react to proposals in the context of the code in question. Recently, on behalf of Panel, SECAS has been running a modification improvement programme, which has resulted in a number of proposed improvements to the SEC modification process. This is following feedback from SEC Parties. We have offered to take Ofgem through the proposed recommendations to see if there are any learnings that could be taken into other Codes or adopted for Code reform.

SEC has specific large programmes of change by the DCC in the next 5+ years; for example, 4G Communication Hubs and Data Service Provider procurement. Without these changes, it would not be possible to deliver Net Zero policy initiatives. This is an example where the needs of Central System providers, will also require consideration against broader policy change objectives. Central System capacity to prioritise and deliver changes will need to be looked at, as part of the wider code change management process.

Regarding Strategic Direction Statements (SDS), we understand the rationale for these. We do however believe that the proposal to start issuing statements next year, might be used as a trial period to refine the approach from an Ofgem and industry perspective. This would mean that by the time Code Managers are appointed, the processes to review, respond and deliver the plans are understood by all and easier to implement. There does however need to be alignment of the code budget cycle and the SDS, to avoid potential changes to budgets mid-year. Ideally these would be sequential consultation with SDS first, ensuring that any priorities from the SDS are included in the code budget consultation.

Whilst we believe it is right that SEC transitions later than other codes, there is a need to understand the expectation upon existing governance structures from the SDS prior to formal Code Manager licence obligations commencing.

The proposed process for review and implementation of the SDS by Code Managers, seems sensible. We accept there is a need to ensure the industry pulls in the right direction to deliver Net Zero benefits for all. However, without specific content to review and critique, it is difficult to comment on the potential impact an SDS may have to specific codes. From a SEC perspective, it is unclear what might be considered a priority, given the key role of smart metering to support and facilitate the drive to Net Zero. There are clearly nuances in the detail of an SDS that will need consideration to bring out those priorities for each specific code.

Finally, we note that the resources associated with the Codes are often specialist and there is a benefit in having good “corporate memory” within those who manage the Code services. We would therefore like to ensure that the uncertainty that the review of Codes could create is short lived and that Ofgem and DESNZ set out their proposed way forward as soon as possible. We are concerned that the uncertainty around the arrangements may mean that we struggle to retain, and indeed attract, resources to facilitate the industry governance arrangements and implement the very changes needed to deliver Net Zero.

If you would like to discuss any of the issues in this response further, please do not hesitate to contact me at SECAS@gemserv.com.

Yours sincerely,

Angela Love

Angela Love
SEC Panel Chair

Ofgem Consultation: Implementation Energy Code Reform

Designation of codes and central systems

Question 1 Q1. Do you agree that we should recommend to the Secretary of State that the 11 industry codes listed (including the SQSS) should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Yes.

Question 2 Do you agree that we should recommend to the Secretary of State that the 5 central systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Yes.

Code Consolidation

Question 3 Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (i.e. the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.

We do not consider it appropriate for the SEC Panel to respond on the specifics of the costs of codes identified for consolidation. but the proposed consolidation by fuel type makes sense and is, we believe a pragmatic approach. We have however provided a general view on the approach taken.

The costs provided in the Impact Assessment seem reasonable. We note the calculations are a desk top exercise based on submissions and assumptions.

Question 4 Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (i.e the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.

It is unclear how the delivery of the identified benefits is measured, and, as a programme overall, the ability to determine if the savings have been realised. It would be useful for consumers and wider industry parties to see a review and report published on the benefits and savings achieved versus the forecast values in the I.A. This might be provided on a code-by-code basis to understand how the benefits from those in the first transition phase are being delivered.

Question 5 Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?

We do not believe it is appropriate for Panel to comment as this change would not impact the SEC.

Question 6 Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?

We do not believe it is appropriate for Panel to comment as this change would not impact the SEC.

Question 7 Do you agree with our preferred option to consolidate the UNC and IGTUNC to form a new unified gas network code?

We do not believe it is appropriate for Panel to comment as this change would not impact the SEC.

Question 8 Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?

We agree with the general direction of ensuring that where possible, a consistent set of provisions exist across codes. However, there needs to be recognition and flexibility in the approach undertaken such that differences in individual codes are not overlooked. For example, specific Security requirements in the SEC.

Strategic Direction

Question 9 Do you agree with our proposal to publish the first SDS for all codes next year (before code managers are in place)?

We understand the rationale for doing so. However, we suggest this might be used as a trial period to refine the approach from an Ofgem and industry perspective, such that by the time Code Managers are appointed, the processes to review, and respond with plans to deliver, are understood by all. However, whilst a trial period maybe useful, the expectation on current governance bodies and Code Administrators needs to be clear. Whilst we believe it is right that SEC transitions later than other codes, there is a need to understand the impact upon existing governance structures, prior to formal SEC Code Manager licence obligations commencing.

Question 10 Do you have views on the proposed SDS process?

The process seems reasonable and as a principle, we accept there is a need to ensure the industry pulls in the right direction to deliver Net Zero benefits for all. However, without specific content to review and critique, it is difficult to comment on the potential impact an SDS may have to specific codes. From a SEC perspective, it is unclear what might constitute a priority, given the role of smart metering to support and facilitate the drive to Net Zero. There are clearly nuances in the detail of an SDS that will need consideration to bring out those priorities for each specific code.

Alignment of budget setting processes with the SDS need consideration to avoid potential changes to budgets mid-way through a year because of an SDS requiring activity not previously considered. Ideally these would be sequential consultation with SDS first, ensuring that any priorities from the SDS are included in the code budget consultation. Further, there will be a need to ensure that capabilities and capacity for Code Managers and Central System providers are such that they can be flexed to accommodate SDS priorities.

Question 11 Do you agree with our proposal that a principles-based standard condition for gas and electricity licensees would support the development and delivery of code modifications related to the SDS?

Yes, in general terms a licence condition should assist. It is important that licence changes to Central System providers are also included.

Code Governance Arrangements

Question 12 Do you agree with our preferred option for how a Stakeholder Advisory Forum should be constituted?

Yes, this seems sensible. Code Managers will need the support of Stakeholders to aid their decision making and to ensure there is trust in the decisions they make. The assessment of the options for the SAF outlined in the consultation document is reasonable and we agree the preference for Option 3 should provide the best platform to enable Code Managers to encourage a wide set of views.

Any proposed change benefits from scrutiny across interested parties, the SAF should facilitate this, however, the challenge will remain as to how Code Managers can ensure that as wide range of opinion as possible is considered. This is particularly important where modifications relate to system and process change, given that Parties to the Codes often must change their internal processes to interface with those at the centre. It is therefore imperative that the Code Managers can engage and hear opinion from the Parties to the Code. Whilst the SAF will assist with this, we believe that it should not be the only route pursued by Code Managers and that other routes could be used if Stakeholders are made aware of where the Code Manager is seeking views and how these are being considered.

The proposed option for the Code Manager to invite others to provide opinion is not a new concept. Under SEC committee Terms of Reference (and possibly other codes) the Independent Chairs have an ability to invite and draw opinion from Subject Matter Experts for specific subjects. The future challenge is perhaps for the Code Manager to seek out and encourage participation, where to date, this may not always be forthcoming. Again, we propose that where other opinions are sought that the Code Manager makes Code Parties aware of those views, where they have come from and if / how the Code Manager has taken them into account.

We note the intention is that Code Panels will be replaced by the SAF, but we would query whether this would mean all the additional sub committees as well? As we have noted in previous responses on this subject, the SEC has some specific committee roles, for example Security, with specific requirements and skill sets of its membership and Terms of Reference. We assume that where a code such as the SEC, has a requirement for an existing committee to be constituted with a specific duty, that this continues, albeit with potential code changes to reflect the new Code Manager governance role.

The consultation process to date has only dealt with narrowing down options. There remain several unknowns around the process for appointing SAF membership, chairing, remuneration etc. In addition, the SEC Panel has wider duties beyond the SEC Modification process. We look forward to working with Ofgem ahead of the next consultation round to consider how the SAF will work relative to the duties required of the Panel in relation to the expectations of the Department.

There is likely to be several sections of the SEC that will require amending to reflect the new arrangements. Our assumption is that these changes will be directed centrally but that there may be considerable workload in the interim for existing Code Administrators to identify the relevant sections for change. We anticipate this next level detail will be forthcoming in the subsequent round of consultations.

Question 13 What are your views on i) a requirement to assess the greenhouse gas impact of code modifications with updated guidance, or, ii) introducing a 'net zero' code objective?

It would be useful if the SDS provides guidance on requirement to determine the impact of code modifications on greenhouse gases. Currently, all SEC Modification reports include a statement concerning the potential impact the Modification proposal will have on Greenhouse Gas Emissions. The SEC's purpose is to facilitate the services to support the rollout and enduring operation of smart metering and is aligned to the principles for Net Zero policy and lowering of greenhouse gas emissions. It is therefore unclear what further delineation is required to then prioritise modifications under SEC.

We agree this area needs more collaborative thought and input across industry and code administrators and we look forward to working with Ofgem.

Question 14 Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

We propose that any standardisation of change priorities needs to start with a review of each codes current processes and consider the best approach across codes, or determine a new hybrid based on the best elements from individual codes. For example, Under the SEC, in addition to the Urgent Modification process in Section D, Modifications are prioritised by the SEC Panel, via delegated authority and the Terms of Reference of the SEC Panel Change Sub Committee. SECAS specifically present a view (agreed with the proposer) of the priority of a proposed Modification to the Change Sub Committee for challenge and acceptance prior to the proposal being accepted as a formal Modification to be progressed.

It is also important to note that each of the codes have specific purposes and therefore any prioritisation process for modifications must have the flexibility afforded to individual Code Managers, to allow them to treat and react to proposals in the context of the Code in question.

SEC has specific large programmes of changes by the DCC in the next 5+ years, for example, 4G Communication Hubs, Data Service Provider procurement. Without these changes, it would not be possible to deliver longer term prioritised change under Net Zero policy initiatives. This is an example where the needs of Central System providers, will also require consideration against broader policy change objectives and Central System capacity to prioritise and deliver changes will need consideration as part of the wider code change management process.

Transition

Question 15 Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?

Yes, this is a sensible and should ensure the changes are made with least risk to existing processes. Whilst this delivers benefit of some certainty, it also provides a challenge for the existing governance arrangements. At the present time the SEC Board is looking at the set-up of the support arrangements around the SEC arrangements and will be taking stock of what the new governance model may mean for SEC activities and how this is facilitated.

There may be an opportunity, to fast track some aspects, alongside consolidation of some codes, so that issues such as Modification and Change prioritisation occurs sooner rather than later across all the codes in the scope of these proposed reforms.

Question 16 Do you identify any strategic or operational considerations that might inform the transition sequence?

As noted in response to question 14, there are considerable Central System changes planned by DCC for the services in the next 5+ years e.g. Data Service Provider procurement, and 4G Communication Hub programme. Further, SEC remains under both transitional governance arrangements via the Department for certain programme delivery by DCC as well as enduring governance via the SEC Panel.

In addition, during the period under which the Ofgem transition powers exist, we expect that the DCC licence will be the subject of a tender process. The current Licence expires 25 September 2025. The proposals for managing the transfer of the Licensee, the scope of the new arrangements and any extension the current Licensee, impact to SEC and the Central Systems all need working through.

Question 17 What are your views on our proposed transition sequencing?

As outlined in question 16, there is a considerable amount of fundamental change occurring in the SEC during the period within which Ofgem must transition the codes to the new code governance arrangements. Given this volume of change we agree with the sequencing proposed for the transition phases.

Question 18 Do you have any other comments on how Ofgem should approach the implementation and transition process?

The resources associated with the Codes are often specialist and there is a benefit in having good “corporate memory” within those who manage the Code services. We would therefore like to ensure that the uncertainty that the review of Codes could create is short lived and that Ofgem and DESNZ set out their proposed way forward as soon as possible. We are concerned that the uncertainty around the arrangements may mean that we struggle to retain, and indeed attract, resources to facilitate the industry governance arrangements and implement the very changes needed to deliver Net Zero. We welcome the ongoing dialogue and work that we have had with Ofgem and DESNZ to ensure that the reforms are introduced as quickly and comprehensively as possible and we look forward to collaborating with you further.