

22nd April 2024

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Dear Lisa,

Consultation on the implementation of energy code reform

Please find attached Xoserve's response to the questions posed by the above consultation.

The passing of the Energy Act 2023 into legislation provides Ofgem with transitional powers to streamline the code landscape and build a strong foundation for the transformation necessary to achieve the government's net zero ambitions. The approach proposed in this consultation is a proportionate use of these powers that will yield significant benefits for customers, and facilitate the energy transition.

However, we believe that, in order to maximise these benefits, Ofgem should:

- **Ensure that code reform does not prevent the integration of Code Management and Central Delivery Service Provider (CDSP) functions;** and
- **Accelerate the consolidation of the UNC and IGT UNC** so that it is part of the first phase of the transition programme.

Below, we provide a brief overview of Xoserve's role in the gas sector, before explaining why we have reached this conclusion.

Xoserve's role in the gas sector

Funded, governed and owned by the gas industry, Xoserve is central to Great Britain's wholesale gas market. We are responsible for the central system delivery function underpinning the gas industry arrangements (including those contained within the Uniform Network Code (UNC)).

As the gas industry's Central Data Service Provider (CDSP), we provide a suite of vital services for gas Suppliers, Shippers, and Transporters (including independent gas transporters (IGTs)). We ensure that Britain's retail gas market runs efficiently and reliably.

We provide a single, consistent point of service for our customers and make sure their data is transported securely.

- We provide information to gas transportation companies from our central register, which holds details about all premises that have a gas supply.
- We also provide data about gas flows across the entire network. This information helps us recognise which companies are responsible for gas entering and leaving the network, so it can remain 'in balance' between supply and demand.
- We maintain the central register and its related information flows through sophisticated computer networks and a suite of innovative data products.

Consolidating the UNC and the IGT UNC would yield significant qualitative and quantitative benefits

We welcome Ofgem's draft impact assessment. We believe that the analysis undertaken, combined with the sensitivity tests performed, is proportionate and provides sufficient confidence in, and justification of, the decision to consolidate the codes.

Indeed, as we discuss in our response to question 4, we believe that additional qualitative benefits of code consolidation could include:

- **Greater certainty / consistency for Gas Shippers:** ensuring that each gas transporter, regardless of whether it is an IGT or a GT, will interact with Gas Shippers in a similar way.
- **Benefits to competition:** reducing barriers to entry by making it easier for market participants to engage with and understand the codes.
- **Addressing issues with quoracy at IGT UNC panel meetings.**

Additional benefits could be captured in the event of integration of Code Management and Central Data Service Provider (CDSP) functions

Many of the qualitative benefits outlined in the draft impact assessment, and above, would be increased in the event of the integration of Code Management and CDSP functions. As such, any Code Manager licence drafting proposed should not act as a barrier to the integration of these functions. Such benefits could include:

- **Capturing the synergies between development of the code and its digital implementation:** combining the assessment, management and delivery of industry-wide change into one holistic activity, considering both the operational and systems implications of code changes simultaneously. This would be particularly valuable in the context of major digital systems upgrades.
- **Improving accountability for, and the efficiency of, code changes:** avoiding unnecessary duplication or hand-offs, and allowing code changes to be delivered more quickly with a resulting reduction in delays in the delivery of change, and industry overheads for the benefit of end consumers.
- **Delivering economies of scale in the delivery of central functions:** reducing the number of industry bodies, simplifying the governance structure for code management and thus saving cost for the benefit of consumers.
- **Consolidating gas sector expertise:** providing an expert sector voice at a time of significant industry transformation and change.
- **Bolstering retention and recruitment:** creating a single entity that has a stronger offering for skilled and expert staff, allowing the gas sector to recruit and retain the expertise necessary to facilitate a smooth transition.

We believe that the consolidation of the UNC and IGT UNC should be part of the first phase of the code reform transition programme

We agree that a phased approach to transitioning codes is appropriate. This would help minimise the burden that code reform will place on the sector at any given time, allow lessons to be learnt, and achieve the transition within the legislative timeframe for Ofgem's transitional powers.

However, we believe that the consolidation of the UNC and IGT UNC should be progressed as part of the first phase of the code reform transition programme for the following reasons:

- **Significant benefits of consolidation:** Given the scale of potential customer benefits identified, we do not see a strong case for delaying the consolidation of the UNC and IGT UNC.
- **Strong foundation for gas sector transformation:** The unified Gas Network Code (GNC) will be an important addition to the code landscape that would provide a solid foundation for subsequent industry transformation programmes including hydrogen development and blending, and major system upgrades.
- **One of the more straightforward code consolidation exercises:** There are already strong linkages between the two codes that should facilitate their consolidation.
- **Inclusion of the gas sector at an early stage could avoid unintended consequences:** If consolidation of the UNC and IGT UNC trails the transition of other significant electricity codes, this could increase the risk that the processes developed would not be appropriate for the gas sector.
- **Constrained band-width in the electricity sector:** Given the focus, scale and timing of transformation programmes such as Market-wide Half Hourly Settlement, the establishment of the Future System Operator and the Review of Electricity Markets, the electricity sector is likely to have less capacity to engage with the code reform programme. The exercise of consolidating the UNC and IGT UNC could start at the same time as the BSC and/or REC transition. The unified GNC would transition at a slower pace, given the need for consolidation, but this consolidation exercise would allow lessons to be learnt to help streamline the process for subsequent electricity code consolidations.

Next steps

We hope you find our thoughts above and our question-specific responses useful. We look forward to working with Ofgem, DESNZ and other code parties to ensure an effective and successful transition to a unified GNC. We would be happy to be an alternate or join the Code Modification Process Workgroup at a later date if helpful.

If there are any areas of our response that you would like to discuss with us in more detail, please contact me at clive.nicholas1@xoserve.com.

A handwritten signature in black ink, appearing to read 'Clive Nicholas'.

Clive Nicholas

Director of Strategy and Development

Consultation on the implementation of energy code reform

Response to consultation questions

Section 2: Designation of codes and central systems

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, we agree that the 11 industry codes listed in the consultation should be designated as “qualifying documents”.

We note that both the Uniform Network Code (UNC) and the Independent Gas Transporters' Uniform Network Code (IGT UNC) are among the 11 industry codes listed, and we agree that they should fall within the scope of code reform.

Q2. 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, we agree that the 5 central systems listed should be designated as “qualifying central systems”.

We note that one of the central systems listed is “the central system delivery function underpinning the gas industry arrangements (including those contained in the UNC), currently undertaken by Xoserve”. We agree that these systems should fall within the scope of code reform.

The transitional powers granted to the Authority by the Energy Act 2023 to deliver code reform are extensive. We hope that the granting of these powers will help to expedite the necessary transformation of the energy sector. There are dependencies between the code reform agenda and the role of central delivery bodies, and we urge Ofgem to recognise these linkages and ensure consistent and proportionate treatment of all central bodies as code reform progresses.

Section 3: Code consolidation

Q3. Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (ie the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.

We agree that there are significant quantifiable benefits from consolidating the Uniform Network Code (UNC) and the Independent Gas Transporters' Uniform Network Code (IGT UNC) into a single unified Gas Network Code (GNC).

We understand that it was necessary for Ofgem to preserve confidentiality in the code administration costs provided, but this has limited our ability to provide more detailed comments and scrutiny. It is also the case that any assessment of costs and benefits will be imperfect and an approximation. However, we believe that the analysis undertaken, combined with the sensitivity tests performed, is proportionate and provides sufficient confidence in, and justification of, the decision to consolidate the codes.

We note that the consolidation of the UNC and IGT UNC is estimated to yield significant benefits (of £41m, central case NPV). The scale of these benefits strengthens the case for expediting the proposed changes where possible to do so.

We understand that the counterfactual assumes some within-code improvements such as rationalisation and simplification of the code text, without consolidation. However, we would question whether the simplification and alignment would be of the same scale in the absence of an exercise to consolidate the codes. The housekeeping of codes and licences can quickly lose impetus and sponsorship, and is much more likely to be done properly as part of a broader exercise to restructure and consolidate such documents. Such a rationalisation exercise would also need to be duplicated across each relevant code, rather than being carried out as part of a single consolidation exercise.

Q4. Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (ie the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.

We agree that there are a number of qualitative benefits that would result from UNC and IGT code consolidation.

The draft impact assessment outlines a number of such qualitative benefits. However, we believe that additional qualitative benefits of code consolidation could include:

- **Greater certainty / consistency for Gas Shippers:** Consolidation should ensure that each gas transporter, regardless of whether it is an IGT or a GT, will interact with Gas Shippers in a similar way. At present, UNC modifications made by distribution networks (DNs), that require consequential IGT UNC changes, rely on an IGT to propose such changes. Where this doesn't happen, this can cause a disparity between IGT and DN customers and require Shippers to have separate processes and systems depending on whether the Meter Point Reference Numbers (MPRNs) are on the DN or IGT network.
- **Benefits to competition:** Making it easier for market participants to engage with and understand the codes would reduce barriers to entry and could increase participation by smaller firms.

- **Addressing issues with quoracy at IGT UNC panel meetings:** There has been an ongoing issue of quoracy at IGT UNC meetings with some meetings having to be reconvened. Code consolidation would address this.

The creation of a single Code Manager across a unified code would also yield benefits beyond economies of scale including:

- **Consolidation of gas sector expertise:** The consolidation and centralisation of gas sector knowledge in a centre of expertise would benefit the sector at a time of such significant transition and change.
- **Retention and recruitment:** A single organisation would provide greater opportunities for career growth and development and improve the ability to recruit and retain key staff.

Many of the qualitative benefits outlined in the draft impact assessment, and above, would be increased in the event of the integration of Code Management and Central Data Service Provider (CDSP) functions. As such, any Code Manager licence drafting proposed should not act as a barrier to the integration of these functions. Such benefits could include:

- **Capturing the synergies between development of the code and its digital implementation:** combining the assessment, management and delivery of industry-wide change into one holistic activity, considering both the operational and systems implications of code changes simultaneously. This would be particularly valuable in the context of major digital systems upgrades.
- **Improving accountability for, and the efficiency of, code changes:** avoiding unnecessary duplication or hand-offs, and allowing code changes to be delivered more quickly with a resulting reduction in delays in the delivery of change, and industry overheads for the benefit of end consumers.
- **Delivering economies of scale in the delivery of central functions:** reducing the number of industry bodies, simplifying the governance structure for code management and thus saving cost for the benefit of consumers.
- **Consolidating gas sector expertise:** providing an expert sector voice at a time of significant industry transformation and change.
- **Bolstering retention and recruitment:** creating a single entity that has a stronger offering for skilled and expert staff, allowing the gas sector to recruit and retain the expertise necessary to facilitate a smooth transition.

Finally, we note that the draft Impact Assessment states that proposals for the new Stakeholder Advisory Forums (SAF) will help to mitigate concerns regarding the potential loss of voice for smaller gas shippers and IGTs. However, as we outline further in our response to question 12, it is not clear that Ofgem's preferred option for SAF constitution would fully achieve this.

Q5. Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?

We have focused our response on issues affecting the gas industry, so we have no comment.

Q6. 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 have focused our response on issues affecting the gas industry, so we have no comment.

Q7. Do you agree with our preferred option to consolidate the UNC and IGTUNC to form a new unified gas network code?

Yes, we strongly agree with proposals to consolidate the UNC and the IGT UNC to form a new unified Gas Network Code (GNC).

As we highlighted in our responses to questions 3 and 4 above, we believe that the creation of the GNC would yield significant quantitative and qualitative benefits.

As the Central Data Service Provider (CDSP) we act as a single agent for both DNs and IGTs, and therefore provide services under both codes. Not only would the consolidation of the UNC and IGT UNC yield significant benefits (as exemplified by the draft Impact Assessment), it would also, we believe, be one of the more straightforward consolidation exercises given the significant linkages between the two codes at present.

However, we acknowledge that some concerns have been raised by parties to the codes regarding the potential loss of voice, in particular in relation to smaller Shippers and IGTs. We would urge Ofgem to ensure that the new framework provides sufficient opportunities for such voices to be heard. We provide further detail in our response to question 12 below.

Q8. Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?

We agree that there should be rationalisation and harmonisation of the key code provisions where this is proportionate and beneficial.

The scope and degree of harmonisation and rationalisation of codes, as part of code reform, could vary by provision and over time. It could include:

- Harmonisation and rationalisation of the key provisions of the codes being consolidated within the new, unified code, at the time of consolidation using Ofgem's transitional powers;
- Further harmonisation and rationalisation of provisions within the consolidated code by the new Code Manager as part of a longer-term exercise; and
- Harmonisation of provisions across the transitioning codes to achieve cross-code consistency and facilitate cross-code changes.

Any harmonisation or rationalisation will make the codes easier to understand and navigate, reducing the costs of doing so for market participants and increasing agility.

However, where there are genuine differences between codes, as a result of different ways of working and sector circumstances, these should not be ignored for the sake of 'consistency'. Where harmonisation requires compromise, the benefits of harmonisation should be carefully weighed against the costs imposed by such a compromise, both from a short- and long-term perspective to ensure that any changes are both net-beneficial and proportionate.

The detail of the common provisions determined should be subject to consultation with the relevant code parties as well as in-depth workgroup discussions. However, in principle, we agree that harmonisation is a valid objective with the potential for tangible benefits. We also agree with the categories of provisions identified as potential priorities for harmonisation, such as contract boilerplate and defined terms, arrangements for party accession and exit, code objectives, and code modification procedures.

It is not yet clear where the correct balance sits between making changes ex ante, under Ofgem's transitional powers, and the Code Manager making changes after code consolidation as part of a longer-term programme of code simplification and rationalisation. Some provisions may benefit from consideration as part of a wider, and more considered, Code Manager-run programme of simplification so that the full implications of any changes can be understood.

In the case of the UNC and IGT UNC, we note that measures have already been put in place to ensure some harmonisation and to avoid inconsistencies, given that IGTs are now direct parties to the UNC, and there is direct referencing between the two codes. It is already the case that the IGT UNC cannot be read as a stand-alone document without reference to the UNC and there are close working relationships between the parties to the two codes. Care will need to be taken to ensure that the rights and interests of smaller Shippers and IGTs are taken into full account in making any changes.

We would welcome the opportunity to comment further on the detail of code provision harmonisation.

Section 4: Strategic direction

Q9. Do you agree with our proposal to publish the first Strategic Direction Statement (SDS) for all codes next year (before code managers are in place)?

Yes, we agree with the proposal to publish the first Strategic Direction Statement (SDS) for all codes next year, before code managers are in place.

We particularly agree with the proposal for the initial SDS to address the full codes landscape, as there could otherwise be a tendency to focus on the codes that fall under Phase 1 only, to the exclusion of the others. An SDS that covers up to a five-year period and addresses the full scope of code reform, would facilitate a smooth transition. It would allow the parties to those codes that are not within the scope of the first phase of reform to understand the direction of travel and, therefore, progress change under existing governance where possible and avoid changes that could conflict with longer-term objectives.

Q10. Do you have views on the proposed SDS process?

We welcome the commitment to engage, at an early stage, with relevant stakeholders, including central system delivery bodies and licensed code parties.

As we stated in our response to question 9 above, we strongly support the proposal that the initial SDS should address the full codes landscape. As such, engagement with all stakeholders on the development of the SDS is critical—not just with those affected by Phase 1 reform.

We also note that some code parties, such as smaller shippers and IGTs, have expressed concerns that their voice will not be heard, and their role may be diminished following code

consolidation. We would, therefore, encourage Ofgem to ensure that such parties are engaged with, in full, so that their concerns can be heard and addressed.

We welcome the transparency and consultation proposed for the development of Code Manager delivery plans, supplemented by appropriate performance reporting and monitoring. We have provided further comments in our response to the consultation on code manager licensing and secondary legislation.

Q11. 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, we agree with the proposal for a principles-based licence condition for gas and electricity licensees to support the development and delivery of code modifications related to the SDS.

We note that the drafting of these proposed licence obligations was not included for consideration in the consultation on code manager licensing and secondary legislation. However, we would welcome the opportunity to comment in future consultations.

We also agree that a similar obligation in the codes, to have effect for non-licensed code parties, is appropriate.

Section 5: Code governance arrangements

Q12. Do you agree with our preferred option for how a Stakeholder Advisory Forum (SAF) should be constituted?

We provisionally agree with the proposed constitution of the SAF, with some caveats.

We agree that a fixed, rather than open, membership would allow for a better institutional memory and allow the advice provided to be informed by history and experience. We also agree that the ability to draw on a wider pool of experts would be useful for certain more specialised issues.

We note that the draft Impact Assessment states that proposals for the new SAFs will help to mitigate concerns regarding the potential loss of voice for smaller gas shippers and IGTs. However, whether Ofgem's preferred option for SAF constitution would fully achieve this will be dependent on the composition of the SAF panel and its detailed constitution and objectives. We would urge Ofgem to take the concerns of smaller parties into account when refining the details of the SAF's constitution and explain how it will give a voice to smaller parties, as well as domestic and industrial customers.

We agree with other respondents that an independent SAF chair would help to ensure fairness and impartiality and secure the trust of SAF participants. However, we feel that voting to establish a SAF-majority view could over-simplify the output of the SAF and minimise minority voices.

Q13. 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?

We believe that introducing a code objective to support the delivery of the net zero target for 2050 and five-year carbon budgets would be appropriate.

The objective of energy code reform is “to make sure that the rules of the energy system keep pace with our net zero ambitions and deliver for British consumers”¹. Given that the Government’s net zero ambitions are a key driving force behind the reforms and Ofgem has a new statutory duty in this regard, a corresponding net zero code objective seems sensible to ensure consistency and clarity of objectives across the industry.

We agree that, as part of code reform, Ofgem should seek to achieve better alignment of code objectives across codes, in order to achieve consistency and simplification. However, in doing so, Ofgem should acknowledge that some differences may be necessary and proportionate.

Q14. Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

Yes, we agree with the proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals.

We agree that aligning prioritisation criteria in the current governance arrangements would facilitate a smoother transition for incoming code managers by allowing the prioritisation of proposals that align with Ofgem’s Strategic Direction Statement (SDS) for energy codes.

Section 6: Transition

Q15. Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?

We agree that a phased approach to transitioning code is appropriate.

A phased approach would help minimise the burden that code reform will place on the sector at any given time, allow lessons to be learnt, and achieve the transition within the legislative timeframe for Ofgem’s transitional powers.

However, in order to maintain consistency across codes where appropriate, Ofgem will need to take care to ensure that standardisation decisions taken in Phase 1, whether in relation to the processes adopted, the code provisions developed, or SAF constitution, look beyond the Phase 1 codes to ensure that they are appropriate for all codes, and engage the parties to all codes accordingly.

We note that Ofgem anticipates some overlap between the end of one phase and the start of the next, and we agree that this is the right thing to do. The benefits of learning lessons can be achieved by staggered starts to code transition, and, subject to resource constraints, there is no need to fully conclude one phase before starting the next.

Q16. Do you identify any strategic or operational considerations that might inform the transition sequence?

We agree that the transition sequence should take strategic and operational factors into account.

It is right that the interaction of code reform with other significant policy projects and associated code changes, such as Market-wide Half Hourly Settlement, the establishment of the Future

¹ [Energy Security Bill factsheet: Code governance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/factsheets/energy-security-bill-factsheet-code-governance)

System Operator or the Review of Electricity Markets, should be taken into account given the potential benefits of having new Code Managers to facilitate industry change, but also the potential disruption it could cause and the demands it could place on industry bandwidth, particularly in the electricity sector.

Given that one of the key drivers for a phased approach is the ability to learn lessons for subsequent code transitions, Ofgem should seek to address the transition of both gas and electricity codes at a relatively early stage to ensure that there are no sector-specific surprises in the latter stages of the transition that act as a blocker to achieving any desired standardisation and consistency across codes.

Q17. What are your views on our proposed transition sequencing?

We believe that Ofgem seek to consolidate the UNC and IGT UNC as part of the first phase of any transition programme.

It is for Ofgem to reach a strategic view on the sequencing of code transition given its long-term objectives and the other significant sector projects planned or underway. However, we believe that the unified GNC will be an important addition to the code landscape that would provide a solid foundation for subsequent industry transformation programmes including hydrogen development and blending, and major system upgrades. We also have concerns that if consolidation of the UNC and IGT UNC trails the transition of other significant electricity codes, this could increase the risk that the processes developed would not be appropriate for the gas sector.

It is right that Ofgem considers the interaction of code reform with other significant policy projects and associated code changes, such as Market-wide Half Hourly Settlement, the establishment of the Future System Operator or the Review of Electricity Markets. We note that there is a greater risk of constrained band-width in the electricity sector given the focus, scale and timing of the above transformation programmes.

Given the strong linkages between the UNC and the IGT UNC, we believe that their consolidation would be relatively straightforward. Taken together with the benefits of consolidation and the greater bandwidth for transformation in the gas sector, we do not see a strong case for delaying their consolidation.

As a result, we believe that the consolidation of the UNC and IGT UNC should be progressed as part of the first phase of any code reform transition programme. We note that Ofgem has proposed a three-stage process, but has also suggested an alternative two- (rather than three-) phase approach could be taken. Either way, the exercise of consolidating the UNC and IGT UNC could start at the same time as the BSC and/or REC transition (neither code requires consolidation). The unified GNC would transition at a slower pace, given the need for consolidation, but this consolidation exercise would allow lessons to be learnt to help streamline the process for subsequent electricity code consolidations, which will be subject to more external pressures in terms of other strategic programmes and demands on resources.

Q18. Do you have any other comments on how Ofgem should approach the implementation and transition process?

Given the desire for consistency, Ofgem should allow input from parties to all codes in the early stages of development, regardless of the phasing of the transition of each code.

We welcome the high-level implementation plan provided by Ofgem but note that it doesn't go beyond Phase 1. Once the phasing of the transition of each code has been decided, we would encourage Ofgem to develop a longer-term implementation plan, for the full code transition programme to allow industry participants to plan accordingly.

We look forward to working with Ofgem, DESNZ and other code parties to ensure an effective and successful transition to a unified GNC. We would be happy to be an alternate or join the Code Modification Process Workgroup at a later date if helpful.