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Office of Gas and Electricity Markets
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22nd April 2024

Dear Ofgem

Re: Energy Code Reform: Implementation Consultation

Thank you for the opportunity to provide a response to the above noted Implementation Consultation. Northern Gas Networks has been actively involved in workgroups and discussions relating to the Energy Code Reform and appreciate this opportunity to continue to feed into it. We have set out our responses to the specific consultation questions in Appendix 1 and, additionally highlight a number of key elements in this cover letter.

1. We continue to encourage the cost benefit analysis of each element of the Energy Code Reform to ensure that the overall impact to end consumers and net zero are prioritised as considerations.
2. Please note that, as a large Gas Transporter, our comments below and within the attached are only provided in relation to gas.
3. We would like to caveat that our answers are based on the limited information available at this time within this document, and therefore, may change or be expanded upon as additional detail in relation to these areas becomes available and is published.
4. From a Gas Transporter perspective, we have particular concern in relation to the cost of the consolidation of the IGT UNC within the UNC as this is a large piece of work requiring specialist legal review of both documents.
5. Whilst we understand this is the subject of a separate consultation, again we would like to highlight our request that it is a consideration for the proposed changes to the licencing of code managers to be made in alignment with the next Revenue = Incentives + Innovation + Outputs Gas Distribution 3 (RIIO GD3) price control. This should benefit easier implementation of consequential licence changes, including any funding models, to Gas Transporters and other impacted parties.

I hope these comments will be of assistance and please contact me on details provided below should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
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the network**

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Designation of Codes and Central Systems

Question 1: 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?

No, Due to the SQSS currently not being covered by the criteria to allow it to be designated, the following response is in relation to the 10 codes that are maintained in accordance with the conditions of a relevant licence. Should the SQSS status be amended via a licence amendment, then please read my response below as being in relation to 11 codes.

As a Gas Transporter, our main experience of codes is in relation to the gas codes and as result our knowledge of the electricity codes is limited. However, the overall principle of code reform is something that has been under discussion for a number of years and broadly has the support of the whole of industry. In view of this, Northern Gas Networks (NGN) supports the proposal to recommend to SoS that all 10 industry codes listed in the consultation document should be designated as “qualifying documents”. The designation of the codes as “qualifying documents” should aid in facilitating the delivery of energy code reform and allow for the enduring governance arrangements for the designated code manager and related central systems to be put in place. We are concerned that due to the time limited nature of the powers, this could encourage expedition of the energy code reform, and we caveat that care should be taken to ensure that there is due diligence to avoid the inadvertent introduction of any adverse consequences.

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?

The majority of our comments as made in relation to question 1 are also relevant to this question. In addition, we note that as a Gas Transporter the only one of the 5 central systems that we directly interact with is UK Link which is managed by the Central Data System Provider (CDSP) function carried out by Xoserve. We are aware that Xoserve also interacts with other central systems as part of the overall beach to meter process (for example the Central Switching Service), however, in relation to these interactions, and the potential consequences any changes may have on the CDSP, we will defer to the expertise of the CDSP and any comments they may make in relation to this in their own response.

It should be noted that the continued appointment of the CDSP is carried out in accordance with Standard Special Condition (SSC) A15 of the Gas Transporters licence, and therefore amendments to this licence will also need to be considered.

In relation to the CDSP as a function of the Uniform Network Code (UNC): The CDSP is efficiently funded by industry, and ultimately by end consumers via passthrough mechanisms, therefore any changes should be based on a cost benefit analysis to ensure that any increase or saving of cost to end consumers, is based on an efficient and beneficial service.

Code Consolidation

Question 3: Do you agree with the monetised 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.

and

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.

The principles that have been applied in the consultation, as explained in chapter 2 of the Impact Assessment, appear logical. We note that these are very high level, and it would be beneficial to parties to see the actual costs used and analysis that has been carried out to derive the final figures. In relation to the UNC, the current code administrator function is very cost efficient. As such it would be valuable to understand the cost base that make up the rest of the Cost Benefit Analysis, especially in relation to the medium and high estimates.

It is not clear whether the actual cost of the consolidation of the two codes has been taken into account within the estimated saving and if so, how this figure has been reached. As these codes interlink and have mirroring relationships in places, the whole of the UNC and IGT UNC will need to be considered from a legal text perspective and likely reorganised in a way that ensures that it is clear which sections are relevant for which parties. This will be a considerable cost not only to industry in relation to the workgroup organisation and attendance, but predominantly from the cost of the legal text provision. How this cost is to be covered, along with which code manager takes ownership for the administration of the task needs to be considered in relation to the overall costs.

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

As a Gas Transporter we do not consider that we are best placed to comment on the pros and cons of code consolidation options in relation to the electricity codes.

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?

As a Gas Transporter we do not consider that we are best placed to comment on the pros and cons of code consolidation options in relation to the electricity codes.

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

and

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

Yes, consolidation of the IGT UNC into the UNC appears to be a sensible option from a consolidation perspective and should make interaction with these codes simpler for relevant parties.

It should be noted, that whilst there are many similarities between the two codes, the charging and credit arrangements are a noticeable area of difference and would need to be carefully considered in relation to the consolidation.

Arrangements for the funding of this consolidation must be formally clarified. The two codes interlink and have mirroring relationships in place, therefore the whole of the UNC and IGT UNC will need to be considered from a legal text perspective. The final version will likely need to be reorganised in a way that ensures that it is clear which sections are relevant for which parties, as there are considerable differences in the arrangements. This will be a considerable cost, not only to industry in relation to the workgroup organisation and attendance, but predominantly from the cost of the legal text provision. How this cost is to be covered, along with which code manager takes ownership for the administration of the task, needs to be considered and communicated.

The current intent of the consultation appears to be that the IGT UNC and UNC would be in place before other provisions of the energy code reform. As such, the need to only select a single code manager for gas should speed up the overall transition process. We have been verbally advised that the current intent is for Ofgem to lead on this and provide the finalised legal text, and we therefore ask that this is formally confirmed as soon as possible. There will need to be confirmation as to the impact this will have in relation to additional workgroups so that this legal text can be reviewed by the whole of industry, as this will likely add additional burden (and cost) to the Joint Office of Gas Transporters, unless the intention is for Ofgem to facilitate these?

Additionally, we note that there are inconsistencies between the IGT and DN approaches and obligations within each code. These can result in additional processing and administration for the Gas Shippers who interact with both codes. Therefore, a consolidated code could allow for industry to better consider potential alignment of these operational differences as part of a modification proposal to the one, new, unified code in the future.

The explicit intent for Ofgem to lead on this piece of work, including the production of the legal text, is not a part of the consultation document. We have noted the following concerns, in the event that this piece of work is in fact to be led by the code administrator:

Whilst we can see the logic in relation to this, the cost and administrative burden of such a consolidation needs to be considered, and in line with this the code administrator responsible, along with how they will

be funded. As the UNC is the larger of the two codes and contains the majority of Gas Transporter and Shipper obligations it would appear logical that the Joint Office of Code Administrators (JO) who is currently responsible for the administration of the UNC takes on this role. The JO is funded collectively by the Gas Transporters (excluding IGTs) and therefore adequate provisions for this to be part of the costs, as well as the timing in relation to recovery of the costs, needs to be taken into consideration if this is to all be completed before the allocation of the code manager. Therefore, in the case of the IGT UNC and UNC, it may be better for this code to be the exception and to be consolidated once the code manager is in place as this will allow it to be carried out, and funded, in accordance with their licence.

We would ask for consideration of amendment of the large transporter funding arrangements in relation to the Joint Office (SSC A12) to allow for pass through of the Joint office costs; This additionally would allow for the JO to lead on the merger of the codes, if required, and the associated piece of work and legal text work to be procured as part of the Joint Office costs.

Strategic Direction

Question 9: 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)?

In relation to the gas codes, UNC and IGT UNC: As stated above, due to the challenges in relation to the consolidation of these codes, specifically the cost and 'ownership' of the consolidation process, as well as the changes that would be required to SSC A11 (Network Code and Uniform Network Code) and SSC A12 (Joint Office Governance Arrangements) of our licence; we recommend the delay of consolidation of the Gas Codes until after the code manager is in place is considered.

As a Gas Transporter we do not feel best placed to comment on the pros and cons of this proposal in relation to the electricity codes.

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

and

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?

Except for our comments given within question 9, we would like to better understand the make-up, and powers of, the Stakeholder Advisory Forum, once the option has been confirmed, before we can fully comment in relation to the full SDS process. Other than this we have no further comments to add in relation to the proposed process.

Code Governance Arrangements

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

We agree that your preferred option 3 of fixed/impartial membership is the best approach. We offer the following caveats that also need to be considered.

It states that there will be a mix of paid independent representatives as well as impartial industry representatives. With the industry representatives not being directly funded for the role; this could lead to a risk of impartiality due to them being fully funded by the companies they work for. For the more commercial businesses, this could lead to a potentially unconscious bias in relation to modification proposals that impact their business. However we can see that the addition of the independent members, whether paid or not, should go some way towards countering this impact in discussions.

We further support this option as it facilitates continued membership from the parties to the relevant codes. This should ensure that there continues to be enough members who have relevant knowledge and experience to understand both the benefits and drawbacks of any proposed change, along with potential consequential impacts. However, we would like to caveat that there also needs to be consideration given to ensure that smaller industry parties, who may not have the resource to actively engage with proposed changes, are still given a voice.

The details in relation to how the SAF would work, who would be asked to be part of it in relation to each of the modification proposals, along with the actual powers the SAF would have, and whether their voting outcomes would be binding or just indicative, would be needed to be able to comment further.

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?

There have been several code modifications that have primarily had a positive impact on to Net Zero, however, these have proved challenging in relation to Panels being able to accurately align a proposal to supporting the existing Relevant Objectives. NGN support the option to introduce a code objective to support the delivery of the net zero target for 2050 and also agree that it should be aligned to the code objectives across all codes.

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?

Yes, NGN recognise the potential benefits of prioritising code modification proposals as it should allow changes relating to, for example, safety & supply, net zero, or of financial benefit to consumers, to be progressed at a faster rate. There must also be clear prioritisation criteria and the information that needs to be considered in relation to determining the priority. However, regardless of this, there will need to be interpretation of how the proposal aligns with the criteria, and therefore this may not always result in the correct outcome. Additionally, when considering the material impact of a proposal, this may lead to smaller industry party's proposals being deprioritised as they are of minor materiality, however the proposed outcome, and therefore delay of the proposal being considered, to that individual party may be significant.

Transition

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

Yes, NGN support the phased approach and consider that this has the potential to minimise the overall impact to industry and, of the four options, this should allow for code parties to be more actively involved with all relevant phases of codes that impact them, whilst maximising the ability for the work to be completed within the required timeframes.

Clarity must be provided in relation to any contingency in place should there be unforeseen circumstances that cause a considerable delay to one or more of the phases.

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

NGN is, as are other Gas Transporters, currently in the process of putting forward our RIIO GD3 submission, and the Energy Code Reform will require changes to our licence conditions, SSC A11 *Network Code and Uniform Network Code*, SSC A12 *Joint Office Governance Arrangements* and potentially SSC A15 *Central Data Service Provider*, and how costs in relation to these areas form part of our submission. The ability to understand these potential impacts as early as possible would aid in taking these into account within our submission.

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

Please see our response in relation to the timing of the consolidation of the IGT UNC into the UNC as answered in question 8. In relation to the sequencing relating to the other codes, as a Gas Transporter we do not feel best placed to comment on the pros and cons of this proposal in relation to the electricity codes.

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

None at present, however we would like to draw your attention to any additional comments made in our covering letter.