

23rd April 2024

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Lisa Charlesworth
Ofgem,
10 South Colonnade,
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Dear Lisa Charlesworth,

Energy Code Reform – Implementation Consultation: Cadent Response

Overall, Cadent is supportive of the approach that Ofgem proposes to utilise in delivering the code governance reforms set out in the Energy Act 2023.

Areas of support

Cadent's support of the consultation's proposals broadly falls into the following areas:

1. The creation of clearly defined roles within a structure that is able to deliver coordinated and prioritised code modifications.
2. The consolidation of the Uniform Network Code (UNC) and IGT Uniform Network Code (IGT UNC) into the new Unified Gas Network Code.
3. The introduction of the Stakeholder Advisory Forum (SAF) and the importance for code parties expertise to not be devalued as part of the code development process.

It is our belief that the achievement of Net Zero will require whole system coordination led by the Government and Ofgem. The consultation document's (the "*document*") proposals define a clear structure between Government policy development at the top of the hierarchy, down to existing code parties that will support the code manager to develop the code in line with Ofgem's Strategic Direction Statements (SDS).

In our view, although existing code panels have acted in a positive manner to further the codes' relevant objectives, the introduction of a code manager and SDS may deliver the code modification coordination,



speed (where necessary) and rationalisation improvements necessary to navigate the energy transition. However, parties performing the code manager role should strike the right balance between focussed delivery of government code reform policies, and performing a duty to ensure continued, higher levels of stakeholder engagement. The code manager role should be demonstrably independent, and the duty to conduct meaningful stakeholder engagement should be at the core of its delivery.

Focusing on gas transportation code reform, we are supportive of the proposed consolidation of the UNC and IGT UNC into the new Unified Gas Network Code. Some of the hypothesis's contained within the document to support gas transporter code consolidation resonate with our experiences as an established UNC panel member; for example, the fact that many UNC principles are replicated in the IGT UNC, due to UNC modifications driving the vast majority of equivalent changes to the IGT UNC. However, we would encourage Ofgem to consider flexibility as a core principle when designing common contractual frameworks, as there are important differences between constituencies that need to be reflected in order to ensure the effective operation of the code.

As part of this new structure, we note the importance of code parties that are closer to the impacts of policy implementation, having the opportunity to inform, constructively challenge, and refine Government's and Ofgem's development of reformed codes. The role of the SAF will be important in maintaining an appropriate level of checks and balances on the code manager's development of the code, similar to the current arrangements within the Uniform Network Code modification rules. Additionally, code managers should be empowered with the flexibility to develop further forums outside of the SAF to ensure that a holistic range of viewpoints are considered.

We believe that the development and publishing of SDS is an important feature of Ofgem's overall code reform design. Although the role of parties is proposed to change from proposing, recommending, and implementing (self-governance) modifications, to supporting Ofgem and a code manager to perform these roles, industry's awareness of, and an ability to inform the code development strategy will remain vitally important. The ability for industry to receive an awareness of and inform Ofgem's code development strategy will be influenced by the timely publishing of SDS – i.e. a repeatable process at the appropriate frequency is likely to deliver more benefits than ad hoc publishing of statements. Moreover, transparency and reporting will be important in order to demonstrate that industry parties' views have been considered as part of SDS development



Constructive viewpoints that we would encourage Ofgem to consider

The key points that we would encourage policy makers to consider when developing code reform are summarised in the following bullet points, with explanation included in the paragraphs below:

- Code parties currently structure their costs to adhere to and participate in energy codes based on the current regulatory frameworks (e.g. obligations to fund and play an active role in code administrator costs, code panel membership, code modification proposals etc.). The document's proposals relating to code manager funding and the licence obligation to provide assistance may result in code parties incurring additional costs. The reasonable costs incurred by gas transporters to meet their new licence obligations should be cost-neutral and reflected in price control allowances. We would welcome the opportunity to discuss the specifics of cost neutrality with Ofgem.
- Operationally and commercially, code parties would find indicative dates on the phased consolidation of qualifying documents and the appointment of code managers helpful.
- We are broadly supportive of the proposal to introduce consistent objectives across the qualifying documents, including an objective relating to net zero and/or green house gas emissions. However, any new framework of objectives should not restrict implementation of necessary methane modifications – e.g., to promote security of supply, protect vulnerable consumers, promote competition etc.

The document states an intention to introduce enduring, principles-based standard condition in all gas and electricity licence types. These standard conditions would obligate the licensee to support the development and delivery of code modifications relating to the SDS, when reasonably requested by the code manager. Additionally, we feel that there is an opportunity to maximise the timing benefits of code reform and the introduction of the NESO, by formalising the role of the NESO within both the qualifying documents and qualifying central systems. We note that the proposed network code-related licence conditions within the current NESO ¹ statutory consultation confer rights and assign obligations to the NESO based on current UNC arrangements. We think it is prudent to extend the application of the proposed licence conditions in the document to the NESO.

¹ Annex G Section E of the NESO licences and other impacted licences statutory consultation



We recognise the value that code managers could access from gas and electricity licensees, in terms of their expertise to support code modification development and delivery.

A link should be made between energy code reform and price control design, as we believe it is important for gas networks to have a cost pass through mechanism to mitigate the uncertainty of costs and timing in RII-GD3. The feature of code reform cost pass through in future price controls would limit the risk of network companies experiencing windfall losses and gains. Furthermore, a cost pass through mechanism would provide licensees with the assurances necessary to ensure the appropriate level of resource availability to meet code managers' requirements.

Our interpretation of Ofgem's code reform proposals is that code parties may incur direct and indirect costs. The direct costs can be defined as costs that parties are attributed under the code manager's cost recovery statement. Indirect costs relate to the internal costs that parties incur by supporting the code manager's development of the relevant code as per their licence obligations.

We believe that thought could be given the passing indirect costs through the code manager. Adopting this structure would ensure transparency of the costs that parties incur in supporting the code manager and drive the right code manager behaviours in terms of efficiencies and the reasonableness of their requests.

The consultation document doesn't include any indicative timelines for the commencement of code consolidation. Whilst the Ofgem minded-to-position on the sequencing of codes to be consolidated is useful, we feel that code parties would benefit from more granular timelines. For instance, the timelines for code consolidation and the introduction of code managers may inform code parties' existing commercial arrangements relating to incumbent code administrators.

The document proposes for Ofgem to deliver code amendments that introduce Net Zero or greenhouse gas emissions reporting-related code objectives. Cadent continues to play an active role in decarbonising its operations and driving the development of greener gases such as biomethane and hydrogen. The review of code objectives should consider the need to both strengthen industry accountability to deliver net zero, and not restrict any code modifications that support the efficient and economic operation of methane networks.

We would welcome the opportunity to discuss this non-confidential response with you in more detail.

Cadent Gas Limited

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Yours faithfully,

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Industry Codes Manager

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