Decision

Making a positive difference for energy consumers

Implementation of energy code reform: consultation decision

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In January 2024 we published a consultation on our approach to implementing the industry code governance reforms set out in the Energy Act 2023. This document summarises the responses to that consultation and outlines our policy decisions on the proposals that we sought views on, including code consolidation and Ofgem's approach to transitioning to the new code governance framework. We intend to consult further on detailed implementation proposals in due course, including statutory consultations where applicable.

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Executive Summary

The Energy Act 2023[1] (the 'Act') sets out a significant package of reform to the governance of the energy industry codes, including new powers and responsibilities for Ofgem.[2] In January 2024, we published a consultation on our approach to implementing these reforms. Our ambition is to create an agile, forward looking governance framework that will be more responsive to change and better reflect the government's ambition and achievement of net zero. This document details our decisions on how we intend to proceed toward implementing the new code governance framework.

Designation of codes and central systems

To implement code reform using our transitional powers, we intend to recommend to the Secretary of State that 11 codes and five central systems should be designated as 'qualifying documents' and 'qualifying central systems' respectively under the Act.[3]

Code consolidation

We have decided to proceed with our proposals to create an electricity commercial code, electricity technical code, and a gas network code. However, we acknowledge the concerns raised by respondents about the inclusion of the System Operator Transmission Owner Code (STC) in the technical code and recognise that further detailed consideration is needed to determine how the STC can best be included within the governance of this new code. We have also decided to proceed with targeted rationalisation of code provisions as set out in our consultation.

Strategic direction

We intend to publish the first Strategic Direction Statement (SDS) for all codes within the scope of energy code reform in 2025. We will proceed with the outlined high-level process as detailed in our consultation. Prioritising publication of the first SDS, before code managers are appointed, will provide opportunities for strategic change to be progressed and co-ordinated under existing code governance. Recognising the important role of stakeholders in achieving effective progression of strategic change, once code managers are in place, we intend to take forward our proposal to insert a new standard licence condition related to the SDS in all gas and electricity licences.

[1] Energy Act 2023 Part 6.
[2] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.
[3] Energy Act 2023 Schedule 12.

Code governance arrangements

We intend to implement a fixed membership structure for Stakeholder Advisory Forums (SAFs), with requirements for SAF members to act impartially. We will also take forward our proposals to harmonise and extend the ability of existing code panels to prioritise the assessment of code modification proposals and introduce a consistent set of prioritisation criteria. We consider that this will facilitate the implementation of the code manager role. We intend to consult on the potential introduction of a net zero code objective in a future consultation.

Transition

To deliver the transition to the new governance framework, we will proceed with the proposed three-phase approach. We note in practice these phases will overlap, and we intend to consult on a more detailed transition plan in a subsequent consultation. Following consideration of stakeholder views, and in light of our decisions on code consolidation, we have decided to proceed with the transition sequence as proposed.

Next steps

Before we appoint code managers, the Department for Energy Security and Net Zero (DESNZ) will put in place secondary legislation and standard licence conditions for code managers. Initial proposals were set out in a DESNZ/Ofgem joint consultation[4] which closed on 5 May 2024. We expect the government response to this consultation will be published later this year.

In winter 2024/25, we propose to consult further on areas including: our approach to code manager selection, further proposals for implementation, and our draft strategic direction statement. We intend to set out our approach to working collaboratively with stakeholders to help facilitate successful implementation of the new governance arrangements.

[4] Energy code reform: code manager licensing and secondary legislation

1. Introduction

Reforming code governance

1.1. The Energy Act 2023[5] (the 'Act') sets out a significant package of reform to the governance of the energy industry codes, including new powers and responsibilities for Ofgem. Energy code reform aims to ensure that the codes can respond to the significantly changing sector, enabling change to be delivered more efficiently and effectively in the interests of consumers, and to support the transition to net zero.[6]

1.2. The reforms aim to create a framework that:

- is forward-looking, informed by and in line with the government's ambition and the path to net zero emissions, and ensure that codes develop in a way that benefits existing and future energy consumers
- is able to accommodate a large and growing number of market participants and ensure effective compliance
- is agile and responsive to change whilst able to reflect the commercial interests of different market participants to the extent that this benefits competition and consumers
- makes it easier for any market participant to identify the rules that apply to them and understand what they mean, so that new and existing industry parties can innovate to the benefit of energy consumers.

1.3. Under the new framework, Ofgem will license code managers who will be responsible for code governance. Part of the code manager role will be to ensure that the codes develop in line with a Strategic Direction Statement that Ofgem will publish annually. This will set out our vision for how the codes should evolve on an annual basis. Industry stakeholders will retain a vital role in the code processes, with new Stakeholder Advisory Forums formed to guide and inform code managers' decision-making.

[5] Energy Act 2023 Part 6.
[6] The benefits case for energy code reform is set out in the 2022 government final impact assessment, published alongside the government response to our 2021 joint consultation: Energy code reform: governance framework - GOV.UK (www.gov.uk).

Context and related publications

1.4. This document explains our policy decisions on the proposals set out in our consultation on the implementation of energy code reform, published in January 2024. Stakeholder responses to our consultation document have informed our final decision.

1.5. Documents relating to this area of work include:

- Design and Delivery of the Energy Code Reform: consultation (publishing.service.gov.uk) – July 2021
- Government response to the consultation on Energy Code Reform (publishing.service.gov.uk) – April 2022
- Call for Input: Energy Code Governance Reform (ofgem.gov.uk) – December 2022
- Energy Act 2023 (legislation.gov.uk)
- Energy Code Reform: Code Manager Licensing and Secondary Legislation: consultation (publishing.service.gov.uk) – March 2024

1.6. We have also published a final Impact Assessment on code consolidation as a subsidiary document to this consultation.[7]

Our decision-making process

1.7. In January 2024, we published a consultation document on our approach to implementing energy code reform. We received 39 responses from a range of stakeholders. We have also engaged with stakeholders through attending code panel meetings, a webinar held jointly with the Department for Energy Security and Net Zero (DESNZ), and bilateral meetings.

1.8. We carefully considered all responses raised by stakeholders, even if they are not specifically mentioned in this decision document. We have published all non-confidential responses on our website, alongside this document.

1.9. In this document we refer to various policy decisions that we have taken in preparation for implementing code governance reform. Ofgem's powers under

[7] Subsidiary documents including the final code consolidation impact assessment can be found here.

Part 6 and Schedules 12 and 13 of the Act will enter into force once they have been commenced in accordance with section 334 of the Act. These provisions are not in effect on the date of publication of this document. This document confirms our position on the consultation proposals and our intention on how we will proceed. We will consult further with stakeholders on detailed implementation proposals, including statutory consultations where applicable, following the anticipated Commencement Order.

Next steps

1.10. As we move forward with energy code reform, we are committed to engaging with stakeholders and providing clarity on how we intend to implement the reforms in practice. We aim to adopt a collaborative approach to implementing the necessary changes and achieving the project's aims.

1.11. Below we summarise upcoming consultations on code reform that we anticipate publishing in Winter 2024/25:

- **Code manager selection consultation**: once the government response to our joint consultation on code manager selection and licensing has been published,[8] we intend to consult on further details related to Ofgem's process of assessing and selecting prospective code managers on either a competitive or non-competitive basis.
- **Licence modification consultation (SQSS)**: we expect to consult on the licence modifications that we consider are required to designate the Security and Quality of Supply Standard (SQSS) as a 'qualifying document', after the National Energy System Operator (NESO) licence is in place.
- **Strategic direction consultation:** we intend to consult on the content of the first strategic direction statement, before publishing a final version in spring 2025.
- **Implementation policy consultation**: we intend to consult on further details for code reform implementation, including related to code consolidation, code governance, transition timelines, and our Act powers to issue directions to responsible bodies for central systems.

[8] Energy code reform: code manager licensing and secondary legislation - GOV.UK (www.gov.uk)

Your feedback

1.12. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision document. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned decisions?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

2. Designation of codes and central systems

Section summary

This section sets out a summary of responses and our decision to:

i) recommend that the Secretary of State should designate the 11 industry codes listed as "qualifying documents", and

ii) recommend that the Secretary of State should designate the five central systems listed as "qualifying central systems",

for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform.

Background

2.1 The Energy Act 2023 (the 'Act') grants Ofgem time-limited transitional powers to modify existing codes, licences, and contracts.[9] We intend to use these powers to make changes to relevant documents to implement the new code governance framework.

2.2 These transitional powers may only be used in relation to 'qualifying documents' or 'qualifying central systems' that have first been designated for this purpose by the Secretary of State, following a recommendation from Ofgem. The Act also requires Ofgem to consult with interested parties prior to making such a recommendation.[10]

2.3 Once Ofgem has selected a code manager, and the necessary changes for them to commence their role are in place, that code and any related central system must be designated by the Secretary of State in order for the new, enduring governance framework to come online.[11] Any codes and systems designated in this manner will

[9] These transitional powers last for up to seven years from October 2023 and are set out in Schedule 12 of the Energy Act 2023 at paragraphs 12(4)(1) and 12(6)(1). The Act also provides for other transitional powers, such as the ability to make arrangements for code consolidation at paragraph 12(7)(1), to make and modify transfer schemes at 12(8)(1) and 12(10)(1), and to request information at paragraph 12(11)(1). Part 6 and Schedules 12 and 13 of the Energy Act relating to energy code reform will enter into force once they have been commenced in accordance with section 334 of the Act.
[10] Paragraph 1, sub-paragraph (8) of Schedule 12 of the Act.
[11] The enduring governance framework is introduced by Part 6 of the Act. This includes the selection and licensing of code managers, Ofgem's duty to issue an annual Strategic Direction Statement, Ofgem's ability to directly modify the codes, and the power for Ofgem to issue enforceable directions to responsible bodies for central systems.

be referred to as 'designated documents' and 'designated central systems', with the designation itself only possible at the recommendation of Ofgem.

2.4 In our consultation we set out proposals relating to the designation of: i) qualifying documents, and ii) qualifying central systems, in accordance with the Act.

Qualifying documents

Consultation position

2.5 We proposed to recommend that the Secretary of State should designate the 11 industry codes listed below as 'qualifying documents':

- Balancing and Settlement Code (BSC)
- Connection and Use of System Code (CUSC)
- Grid Code
- Distribution Connection and Use of System Agreement (DCUSA)
- Distribution Code
- System Operator Transmission Owner Code (STC)
- Security and Quality of Supply Standard (SQSS)
- Uniform Network Code (UNC)
- Independent Gas Transporters Uniform Network Code (IGT UNC)
- Smart Energy Code (SEC)
- Retail Energy Code (REC)

2.6 In respect of the SQSS, we noted in the consultation that we intended to modify relevant licences to place an obligation on the electricity system operator to maintain the SQSS, so that it becomes a code which is 'maintained in accordance with the conditions of a relevant licence' and can therefore be designated as a qualifying document under the Act.

Summary of consultation responses

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?

2.7 The majority of respondents agreed with our proposal. Some respondents cited general agreement with the aims of code reform. Two respondents suggested that the proposed scope aligns with the need for whole system or cross-code change.

2.8 Two respondents disagreed with the designation of specific codes, with one disagreeing only with the inclusion of the SQSS and another disagreeing with the inclusion of both the SQSS and the STC. The concerns raised focused on the enduring designation of the SQSS and STC as designated documents, with a perception that existing governance works well for these codes due to their technical nature and their role in network security.

Decision

2.9 We have decided to proceed with a recommendation to the Secretary of State that all 11 codes listed above should be designated as 'qualifying documents' under the Act, following the commencement of Schedule 12,[12] for the purposes of using our transitional powers to implement code reform.

Rationale for our decision

2.10 We welcome respondents' support of our proposal. We consider that including all 11 electricity and gas codes within scope of our transitional powers will enable us to implement the reforms efficiently and effectively.

2.11 With respect to the STC and SQSS, we note that we published a joint decision with the Department for Business, Energy and Industrial Strategy (BEIS)[13] in 2022 that included both of these codes as being within scope of energy code reform.[14] This decision was informed, in part, by the government response to the independent engineering standards review in 2021, which agreed with the review's recommendation to explore a new governance framework for engineering standards, and the potential of code reform to deliver that framework.[15]

[12] Part 6 and Schedules 12 and 13 of the Energy Act relating to energy code reform will enter into force once they have been commenced in accordance with section 334 of the Act.
[13] About us - Department for Business, Energy & Industrial Strategy - GOV.UK (www.gov.uk)
[14] Government response to the consultation on Energy Code Reform (publishing.service.gov.uk) p.13
[15] Independent Review of Electrical Engineering Standards: government response (publishing.service.gov.uk) p.11

2.12 As we set out in our joint consultation with BEIS in 2021,[16] our view is that engineering standards have direct impacts on consumers because of the way they describe requirements at the interface of network licensees and their customers. We also consider that they may have a role in achieving net zero ambitions and facilitating innovation. However, we note the concerns about the technical nature of these codes, and we intend to be mindful of this when establishing their respective governance arrangements.

Qualifying Central Systems

Consultation position

2.13 We proposed to recommend to the Secretary of State that the five central systems listed below are designated as 'qualifying central systems':

- the central system delivery function underpinning the gas industry arrangements (including those contained in the UNC), currently undertaken by Xoserve
- the central system delivery function underpinning the electricity industry balancing and settlement arrangements, currently undertaken by Elexon
- the central system delivery function underpinning the rules and requirements for service delivery for smart metering that are under the SEC, currently operated by the Data Communications Company (DCC)
- the central system delivery function underpinning the Data Transfer Service (DTS), which carries data used in the change of supplier process (as required by the REC and BSC), currently operated by Electralink, and
- the Central Switching Service (CSS), as required by the REC, currently operated by the DCC.

Summary of consultation responses

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*

[16] Design and Delivery of the Energy Code Reform: consultation (publishing.service.gov.uk)

"qualifying central systems" for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

2.14 None of the respondents to this question disagreed with the overall proposal to recommend to the Secretary of State that the five central systems listed should be designated for the purposes of using our transitional powers in the Act.

2.15 Two respondents queried some of the detail in our proposals. One respondent suggested that rather than designating the CSS, we should designate the Centralised Registration Service (CRS), which it stated would include the Switching Operator and Certificate Authority as well as the CSS. This respondent suggested that the systems should be defined by referring to the functionality provided. Another respondent stated that additional systems which operate alongside the CSS should be included, for example the Gas Enquiry Service.

2.16 A few respondents sought further clarity on how our transitional powers will be used to modify licences, codes and contracts, including on how these changes will facilitate the recovery of costs from Ofgem directions. One respondent also sought further clarity on the scope of the enduring power for Ofgem to direct a system body to take such steps as Ofgem "considers may be necessary for the efficient operation or implementation of the provisions of a relevant designated document",[17] and how we envisage this will be used.

Decision

2.17 We have decided to proceed with a recommendation to the Secretary of State that the five central systems listed above should be designated as 'qualifying central systems' under the Act, following the commencement of Schedule 12,[18] for the purposes of using our transitional powers to implement code reform.

Rationale for our decision

2.18 We remain of the view that the five central systems identified are integral to the industry code framework, and that there is a need to ensure effective coordination

[17] Energy Act 2023 (legislation.gov.uk) s.194.
[18] Part 6 and Schedules 12 and 13 of the Energy Act relating to energy code reform will enter into force once they have been commenced in accordance with section 334 of the Act.

between code managers and central system delivery bodies to allow for the effective development and delivery of code and system changes.

2.19 To ensure that the right frameworks are in place to allow for the use of our new enduring powers under the Act, and to allow the bodies responsible for central systems to recover any costs incurred through complying with an Ofgem direction, we may need to use the transitional powers provided by the Act to amend licences, codes and contracts. Prior to making any relevant amendments we intend to consult as required by Schedule 12 of the Act.[19]

2.20 We acknowledge that further clarity is required on how our enduring power to direct responsible persons for central systems may be used. We intend to consult with stakeholders on this in due course.

2.21 Regarding how we define the systems that we are recommending be designated by the Secretary of State, we agree with the respondent who recommended that systems should be defined in terms of their functionality, where possible.

2.22 Regarding designation of the CSS, we intend to proceed with recommending that the CSS is designated but recognise that it may be necessary to designate additional systems underpinning switching arrangements in future.

Next steps

2.23 We intend to publish our letter of recommendation that the codes and central systems stated above should be designated by the Secretary of State once the relevant provisions of the Act are in force.[20] We also intend to modify the conditions of relevant licences so that the SQSS can be designated in this manner, with a consultation expected later this year. As required by the Act, we will also consult on our use of transitional powers prior to modifying relevant documents, licenses or contracts.[21]

[19] Paragraph 1, sub-paragraph (8) of Schedule 12 of the Energy Act 2023.
[20] In accordance with section 334 of the Energy Act 2023, the relevant provisions of the Act come into force on such day or days as the Secretary of State may by regulations appoint.
[21] Schedule 12(4) of the Energy Act 2023 sets out a power for Ofgem to modify qualifying documents for any of the purposes specified at Schedule 12(2). Schedule 12(6) sets out a power for Ofgem to modify qualifying contracts for any of the purposes specified at Schedule 12(2). Before using our powers under Schedule 12(4) or Schedule 12(6), we would be required to consult.

2.24 Regarding the new enduring power provided by the Act to issue directions to responsible bodies for central systems, we intend to provide, in an upcoming consultation, further detail on how we propose to use this power.

3. Code consolidation

Section summary

This section sets out a summary of responses and our decisions on our analysis and proposals to:

i) consolidate –

CUSC and DCUSA to form an electricity commercial code,

Grid Code, STC, SQSS and Distribution Code to form an electricity technical code,

UNC and IGT UNC to form a gas network code; and

ii) seek to rationalise certain governance provisions as part of any consolidation exercise.

Background

3.1 Some of the transitional powers included in the Energy Act 2023 (the 'Act') were, among other things, designed to facilitate the delivery of code consolidation. The Act defines consolidation, in relation to the codes, as meaning the incorporation of the whole or part of the provision made by a document into another document.[22]

3.2 Our view is that this is best achieved by establishing a single set of overarching contractual arrangements to bring two or more codes together, and then delivering rationalisation of certain content within that newly consolidated code to promote its efficient governance. We consider that targeted code consolidation will contribute towards reducing the complexity and fragmentation of the current codes framework and will enable appointed code managers to pursue further rationalisation and simplification of the code content over time.

3.3 We sought views on some high-level options for code consolidation in our 2022 Call for Input, which were informed by a non-exhaustive list of potential options published in an independent report commissioned by Ofgem.[23] After considering the responses to this Call for Input, we conducted an impact assessment to evaluate the monetised and hard-to-monetise costs and benefits of gas code consolidation and two alternative approaches to electricity code consolidation:

[22] Schedule 12, paragraph 7, sub-paragraph (2) of the Act.
[23] Both documents can be found on our website: Energy Code Governance Reform | Ofgem.

consolidation by subject matter, into commercial and technical codes ('Option 1'); versus consolidation by network level, into transmission and distribution codes ('Option 2'). The outcome of this draft impact assessment led us to conclude that the benefits of implementing Option 1 would outweigh those of implementing Option 2.

3.4 In our consultation, we built on the findings of this draft impact assessment by setting out proposals relating to: i) the consolidation of existing codes, and ii) the approach to consolidation.

Consolidation of existing codes

Consultation position

3.5 We proposed:

- to create an electricity commercial code containing the provisions currently held within the CUSC and DCUSA
- to create an electricity technical code containing the provisions currently held within the Grid Code, SQSS, STC and Distribution Code
- to create a gas network code containing the provisions currently held within the UNC and IGT UNC.

3.6 These proposals were supported by the quantitative and qualitative analysis published in the accompanying draft impact assessment. We confirmed our intent not to consider consolidation of the BSC, REC or SEC at this time.[24]

Summary of consultation responses

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.

3.7 The majority of respondents neither agreed nor disagreed with the monetised costs and benefits set out in the impact assessment, with many either requesting further details on how the resulting figures were calculated or choosing not to comment at all. However, most of these respondents nonetheless agreed that consolidation

[24] The glossary at the end of this document defines acronyms used to refer to individual codes.

would be likely to deliver net benefits in the long-term, even if they were unclear about, or disagreed with, specific elements of the underlying cost benefit model. Of those who expressed a clear view on this question, twice as many respondents agreed than disagreed with the quantitative analysis, with a few expressing mixed views overall.

3.8 Many respondents commented on the assumptions used to develop the cost benefit model, with some expressing concerns that they risked overestimating the benefits of consolidation and underestimating the costs. A few respondents were particularly concerned with how we had calculated industry costs, noting that the share of Selling, General and Administrative Expenses (SG&A) that we assumed was dedicated to code governance was too high.[25] A couple of respondents also commented that the model seemed sensitive to changes in these underlying assumptions, which could lead to different outcomes if the associated values were increased or decreased.

3.9 Only a few respondents explicitly commented on the net present value (NPV) figures for the three shortlisted consolidation options. Views on gas code consolidation were mixed, with two respondents agreeing with the figures and two disagreeing. Comments related to electricity code consolidation focused on the difference between Option 1 (commercial and technical) versus Option 2 (transmission and distribution), with a couple of respondents noting that the combination of relatively similar NPV figures and the level of uncertainty built into the model made it difficult to make a clear assessment.

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.

3.10 The majority of respondents neither agreed nor disagreed with the hard-to-monetise costs and benefits set out in the impact assessment. Of those who expressed a clear view on this question, roughly half explicitly agreed with our

[25] SG&A is an expenditure category that covers a broad range of day-to-day business costs that are not directly related to the production of a good or service. We used this cost category when calculating top-down costs for industry, first by assuming that SG&A represented 10% of total energy industry costs and then by assuming that costs related to code governance were equivalent to 2.5% of SG&A. These top-down costs were then used when calculating the monetised costs and benefits of consolidation over time.

approach and a few disagreed. We also received a wide range of comments on specific aspects of our qualitative analysis, both positive and negative.

3.11 Many of the comments related to the design principles that we used to assess consolidation options. Some respondents expressed agreement with these principles, whereas a few disagreed with both the principles and our analysis against them. There were specific comments on the design principles,[26] including:

- making it easier for market participants to engage with and understand the codes – some respondents mentioned that longer and more complex codes would hamper the ability to meet this principle. Others commented that meeting this principle would be highly dependent on other aspects of code governance reform, such as the design of the relevant Stakeholder Advisory Forum (SAF).
- facilitating the delivery of strategic change and enabling the codes to be agile and adaptable to future market arrangements – there was one suggestion that this could be achieved by reviewing and aligning code objectives, without the need for consolidation.
- supporting the implementation of the new code governance arrangements and minimising disruption – there were mixed comments on this principle, with a few respondents emphasising its importance and one recommending that it be removed entirely.

3.12 Many respondents also commented on the analysis underpinning individual consolidation exercises, citing either additional benefits or questioning our analysis of identified benefits.

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

3.13 A majority of respondents who provided a view on this question agreed with our proposal to consolidate the CUSC and DCUSA to create an electricity commercial code. A few respondents also disagreed with our proposals, and a few neither agreed nor disagreed.

[26] We developed these design principles through consultation with stakeholders, starting with our Call for Input in 2022 and then concluding with our consultation and draft impact assessment in 2023. Further detail on how these principles were developed and how they have been applied can be found in those documents, which are located on our website: Energy Code Reform | Ofgem.

3.14 Those who agreed with the proposals highlighted the fact that more organisations are working across different voltages, and that a whole-system view of the network would help to support areas like connections reform, distributed generation, and electric vehicle charging. A few respondents also commented that more parties are expected to need to join commercial codes as the energy system changes, and suggested that it would be easier for those unfamiliar with the system to engage with a single code.

3.15 Those who disagreed mentioned that the resulting code would be highly complex and potentially difficult to navigate. They also said that the opportunities to rationalise and harmonise content would be limited, resulting in a costly exercise with limited benefits.

3.16 A few respondents suggested that there was the potential for commercial interests of organisations to be negatively affected if the consolidation is not conducted in the right way. A few respondents also commented on the need for a code manager with sufficient experience and capability to manage a code that applies to the whole network.

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?

3.17 A majority of respondents who provided a view on this question agreed with our proposal to consolidate the Grid Code, Distribution Code, STC and SQSS to form a unified electricity technical code. Some respondents reserved judgement on our proposal, citing a desire to see further analysis or clarity from Ofgem on how the new code would be governed. A few respondents also disagreed with our proposal, primarily due to their concerns over the inclusion of the STC and/or SQSS as part of the consolidated code.

3.18 Those who agreed with the proposal commented that it would provide an opportunity for improved efficiency, and for simplification and clarification of the system rules. A few went further to say that the benefits of consolidating the technical codes would outweigh the costs of implementing consolidation.

3.19 Others said that the benefits would be marginal, and that the resulting code risked being more difficult to engage with given its length and complexity. There were also comments about the potential risks of compliance with technical standards being changed in a way that disrupts individual businesses.

3.20 Some respondents had specific concerns about the STC and SQSS being included in the consolidated code. Concerns across both codes included the risk of opening the governance of the SQSS and STC to a wider range of stakeholders, which a few respondents worried could create risks related to the safety and security of the transmission network, due to the commercial interests of network users. A couple of respondents were also concerned that modifications to these two codes would be neglected in a consolidated code.

3.21 A few respondents also raised specific concerns on the inclusion of the STC, beyond those identified above. These concerns included a recognition of the mixed technical and commercial content of the STC, which they believed would be difficult to disentangle; a desire to preserve the unique role that the STC plays as the interface between the Electricity System Operator and Transmission Owners, as opposed to other codes that are more outward facing; and worries about the potential loss or dilution of Transmission Owner expertise on the STC.

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

3.22 A large majority of respondents who provided a view on this question agreed with our proposal to consolidate the UNC and IGT UNC to create a unified gas network code.

3.23 Respondents who supported the proposal mentioned that the codes are technically similar and agreed that the current need to replicate many UNC modifications in the IGT UNC meant there was a strong case for improving the efficiency of governance processes. Commenting specifically on benefits identified in the draft impact assessment, two respondents provided additional arguments in favour of a unified gas code, namely greater certainty and consistency for shippers, benefits to competition, addressing issues for quoracy at IGT UNC meetings, consolidation of gas sector expertise, and benefits in terms of staff recruitment and retention.

3.24 Some respondents commented that the approach to consolidation would be critical, and highlighted the importance of ensuring that independent gas transporters had an equal say throughout the consolidation process, and in the subsequent governance arrangements of the consolidated code.

3.25 Some respondents highlighted that there are metering provisions in the IGT UNC, and questioned whether these would more appropriately belong in the REC, rather than in the proposed consolidated code.

3.26 One respondent mentioned existing attempts to harmonise the provisions of the UNC and IGT UNC, and that further consolidation should take account of this exercise.

3.27 One respondent disagreed with the consolidation proposal, due to concerns about making changes to the content of the codes during the transition phase and before the code manager is in place.

Decision

3.28 We have decided to make two revisions to the monetised cost benefit analysis published in our draft impact assessment: a 50% reduction in the share of industry costs assumed to be dedicated to code governance; and the reporting of sensitivity tests on other assumptions that received a high level of interest from respondents. We have also decided to finalise the hard-to-monetise cost benefit analysis in our draft impact assessment, without making any substantive revisions to either the overarching design principles or the associated analytical framework.

3.29 We have decided to proceed with our proposals to create an electricity commercial code and a gas network code. We will also proceed with our proposal to create an electricity technical code. However, we acknowledge concerns raised by respondents about the inclusion of the STC in the consolidated code and recognise that further detailed consideration is needed to determine how the STC can best be included within the governance of the new technical code.

Rationale for our decision

3.30 There was a high degree of support for all of our consolidation proposals and, although some risks and challenges were identified, we believe that these can be addressed by working closely with industry stakeholders on the process of

consolidation and design of the new governance arrangements. Information about next steps can be found at the end of this section.

Quantitative analysis of monetised costs and benefits

3.31 When estimating the monetised impact of code consolidation, we relied on a number of assumptions about the significance and magnitude of relevant costs and benefits over time (as described in chapter 2 of the impact assessment). Although we believe these assumptions are reasonable, we acknowledge that their usage necessarily introduces a degree of sensitivity into the underlying cost-benefit model, which could potentially lead to the generation of different overall results if those assumptions were to be varied.

3.32 We had assumed that one of these values, annual industry expenditure on code governance, was equivalent to 2.5% of SG&A, which would mirror the proportion of Ofgem staff that are estimated to work on codes. We chose to rely on this assumption, rather than gathering expenditure data directly, due to the wide variation in expense profiles anticipated across different types of code parties (which would require an equally wide, and arguably disproportionate, information request to model precisely). However, in doing so, it appears that we inadvertently overestimated the size of this variable so we have decided to decrease it accordingly.

3.33 We also received mixed views on other assumptions, without a clear consensus emerging regarding whether they had been set too high or too low. We therefore decided to retain the default values in the cost benefit model and publish a range of sensitivity tests instead, as a way of demonstrating what impact any variation in these values would have had on the overall results.

Qualitative analysis of "hard-to-monetise" costs and benefits

3.34 We remain of the view that there are merits to analysing the impact of consolidation with the help of a qualitative framework and that the three design principles we have identified are the correct ones. However, we appreciate the time and effort that respondents have spent commenting on the underlying analysis and we have made several revisions throughout the impact assessment as a result,

both to address questions that were raised by individual respondents and to integrate additional pieces of suggested evidence.[27]

3.35 On the design principles, we consider that bringing multiple codes together will make it easier for code parties to engage with and understand the codes but are mindful of the risk that it could potentially have the opposite effect by making the resulting code more unwieldy (especially for parties with narrow interests under the codes). We will keep this risk in mind as we engage with stakeholders on the detailed design of the new governance arrangements for each consolidated code.

Electricity commercial code

3.36 We remain of the view that consolidation of the commercial codes will improve ease of engagement for parties and reduce disparity between the commercial rules across the transmission and distribution systems.

3.37 We recognise that some respondents were concerned about the complexity of the consolidation exercise and the potential size of the new consolidated code. We also recognise that some respondents had concerns about the impact on the commercial interests of organisations. We intend to work with industry stakeholders to take on board suggestions for how best to manage these potential risks through the process of consolidation.

Electricity technical code

3.38 We remain of the view that consolidation of all four technical codes[28] will help reduce the burden on those organisations that have to engage with multiple codes, and that this will support improvements in the system by fostering a whole-system perspective. However, as noted above, we will conduct further analysis on how best to include the STC within the governance of the consolidated code as we proceed to consider detailed implementation and will keep this decision under review if necessary.

[27] We do not consider that any of these revisions were substantive enough to warrant a change to the qualitative scores assigned to either option, so the outcome of the qualitative analysis remains unchanged. Further detail on these changes can be found in the final impact assessment published alongside this decision document.
[28] Grid Code, Distribution Code, SQSS and STC.

3.39 We recognise that some respondents were concerned about the potential length and complexity of a unified technical code. As with the commercial code, we intend to prioritise working with industry during the implementation period because we consider that this engagement will be valuable in facilitating the creation of a more streamlined code that is easier to engage with.

3.40 We recognise that some respondents were concerned about including the STC and SQSS in the electricity technical code. We consider that many of the concerns expressed about these codes can be mitigated by designing appropriate governance arrangements. We will continue to be mindful of these concerns as we progress with our plans for detailed implementation. We are also mindful of the mixed commercial and technical nature of the STC, and the role that it plays as the interface between the Electricity System Operator and Transmission Owners, and will keep this in mind when designing the new arrangements.

Gas network code

3.41 We remain of the view that there is a clear opportunity for improvements in efficiency by bringing the two gas codes together, and welcome the broad support received from stakeholders.

3.42 We agree with stakeholders who highlighted the need to ensure that all parties of both the UNC and IGT UNC can fully engage in the consolidation process. We recognise that it is important that the contractual and commercial interests of all parties are considered when bringing these codes together. We also recognise that clarity regarding responsibilities in relation to the consolidated code will be key.

3.43 We have carefully noted the specific technical points raised by respondents and intend to take these into account as part of the next stage of code consolidation.

Approach to consolidation

Consultation position

3.44 We proposed that any consolidation activities undertaken by Ofgem during the transitional period should be limited in scope, and form the first phase of a longer-term exercise to rationalise and simplify the codes by code managers.

3.45 To this end, we identified the following areas where we believed code provisions should be targeted for rationalisation and simplification as part of any Ofgem-led consolidation activity, using the transitional powers granted by the Act:

- Common contractual framework
- Contract boilerplate and defined terms
- Party accession and exit
- Code objectives
- Code modification process
- Code compliance
- Credit cover arrangements
- Dispute processes
- Derogation provisions

Summary of consultation responses

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

3.46 A large majority of respondents agreed with our proposal to rationalise the identified code provisions as part of consolidation. A few respondents disagreed with the proposals because they disagreed with our wider proposals to consolidate codes.

3.47 Respondents in favour of the proposals said consolidation of these provisions was important to meet the objectives of code reform and that this exercise could improve efficiency and reduce costs for industry. Some respondents did, however, refer to credit cover, suggesting that caution was needed in rationalising these provisions. There was concern about the possible impact on parties' commercial interests, and one respondent suggested leaving this area of rationalisation until after the appointment of a code manager.

3.48 Many respondents wanted to see more detail on the expected process of consolidation, though agreed with it in principle. This included seeking information on the timeline for consolidation, and who would lead the process. Respondents noted the significant resource commitment needed for rationalisation of codes, with some respondents urging a sequential approach to minimise the impact on

industry. Respondents also wanted to ensure that lessons learned from the REC consolidation process were fully factored into our plans.[29]

Decision

3.49 We have decided to proceed with our proposal to conduct targeted rationalisation of code provisions for the areas we listed in our consultation.

Rationale for our decision

3.50 We remain of the view that targeted rationalisation of governance provisions during the initial phase of consolidation will create opportunities to reduce costs and improve efficiency. While there was broad agreement with the rationalisation areas proposed, we will continue to work with industry stakeholders to assess how to prioritise this exercise and determine the scale of changes needed in each area.

3.51 We recognise from the responses that some areas may be more complex to consolidate than others, for example credit cover. There are likely to be different options for the extent of rationalisation, for example there could be complete harmonisation of all provisions across codes, or potentially some over-arching harmonisation, but with bespoke provisions still remaining.

Next steps

3.52 We recognise the importance of stakeholders being able to see a plan for the consolidation and rationalisation process as soon as possible, and we intend to set out further detail on this in our next consultation.

3.53 Ofgem will lead the initial phase of consolidation, supported by industry engagement and expertise. While rationalisation of code provisions will be limited in scope, we recognise this nonetheless requires industry time. We will seek to strike the right balance between the need to bring in industry expertise, and the need to minimise unnecessary pressure on industry parties. We expect that a series of Ofgem-led industry working groups, beginning in 2025, will be the primary vehicle for engaging industry and developing the code changes necessary to deliver targeted rationalisation.

[29] This process consolidated the Master Registration Agreement (MRA) and the Supply Point Administration Agreement (SPAA) to form the Retail Energy Code (REC).

3.54 Our next consultation will provide further detail on the sequencing and steps involved in code consolidation. Our aim is for much of the detailed work to create the contractual framework and rationalise code provisions to take place in advance of the code manager being appointed.

4. Strategic direction

Section summary

In this section we set out a summary of responses and our decisions in relation to:

i) publishing the first Strategic Direction Statement (SDS), and the proposed SDS process and approach, and

ii) a condition in gas and electricity licences to support the delivery of code modifications related to the SDS, recognising the role of stakeholders in the process of achieving strategic change.

Background

4.1 The Energy Act 2023 (the 'Act') introduced a new obligation on Ofgem to publish an annual Strategic Direction Statement (SDS) for designated industry codes. The SDS will set direction for the development of designated gas and electricity codes, in line with our overarching vision for the energy sector. Each relevant code will be 'designated' once a code manager is in place.[30]

4.2 Under the Act, the SDS must contain a strategic assessment of government policies and developments relating to the energy sector that will, or may, require modifications to designated industry codes, and cover such other matters relating to designated codes as the Secretary of State may specify in regulations. In preparing the SDS, we must also have regard to any relevant advice given by the National Energy System Operator (NESO).

4.3 In our consultation we set out proposals relating to: i) the approach to publishing Ofgem's SDS, and ii) the role of stakeholders in code change arising from the SDS.

[30] As set out in Section 182 of the Energy Act 2023, 'Designation of codes etc'.

Strategic Direction Statement

Consultation position

4.4 We proposed publication of the first SDS in spring 2025, before code managers are appointed, and set out our view that the SDS should cover all codes that are in scope of energy code reform from the outset. We recognised that code managers would not be in place within this timeframe, but that we considered there to be opportunities to progress SDS-related code modifications through existing processes.

4.5 We proposed that while each SDS would focus on one to two-years ahead, it could potentially cover up to a five-year period depending on the policy area. We also stated that the detail and prescription within the SDS would depend on the policy area.

4.6 We set out a high-level annual process for developing and implementing the SDS, through a development phase and implementation phase.

Summary of consultation responses

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

4.7 A majority of respondents agreed with our proposal to publish the SDS in spring 2025 before code manager appointment, with many agreeing that:

- publication before code manager appointment will help prepare prospective code managers for their role
- it is useful to understand the SDS process and allow for that process to be refined
- it provides opportunity for strategic change to be progressed under existing governance.

4.8 One respondent explicitly disagreed with the proposal to publish an SDS in spring 2025, opposing publication before all code managers are in place.

4.9 Some respondents expressed concern over the ability of industry to implement the SDS alongside other priorities before code managers are appointed, citing concerns over resource and lack of oversight. Clarity was sought over roles and responsibilities of stakeholders before code managers are in place.

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

4.10 The majority of those who responded to the question agreed with the high-level process for the SDS that we proposed, with other respondents neither agreeing nor disagreeing. One respondent who explicitly disagreed with the proposed SDS process cited a lack of funding and resource for code administrators to implement it.

4.11 There was strong agreement that industry stakeholders should be engaged during SDS development and the subsequent consultation, with many respondents broadly supportive of the outlined process. Some were concerned that the engagement would not be extensive enough, with one respondent disagreeing with the proposed process as they believed it would not deliver stakeholder buy-in. Another flagged the potential for stakeholder fatigue following SDS development, consultation and input on code manager delivery plans.

4.12 Of those that commented, there was agreement that the scope of the SDS should focus on the next one to two-years, and up to five years. Some agreed that including a five-year timeframe would be helpful, giving an element of certainty to allow for confident decision-making. A few respondents said that the SDS should try to avoid frequent changes and/or reprioritisations year-on-year to prevent confusion. Some respondents expressed their view that the publication and implementation of the SDS must be mindful of current and future code budget processes and timelines.

4.13 There was also agreement that prioritisation within the SDS would be important. Some respondents highlighted the value of transparency in the prioritisation process to provide clarity and allow for industry scrutiny and challenge.

4.14 There were opposing views on the level of detail the SDS should provide, but overall more respondents sought sufficient granularity compared to those who wanted less detail.

4.15 A few respondents requested clarity on the process if stakeholders disagree with the SDS and how industry participants could challenge code managers if they are not implementing the SDS. Some respondents expressed the importance of reactive industry-led change and questioned how these should be prioritised against the SDS, with the respondent highlighting that industry may be innovating ahead of regulatory or policy change.

Decision

4.16 We have decided to proceed with our proposal to publish the first SDS in 2025 for all codes that are within the scope of energy code reform.[31]

4.17 We have decided to proceed with the high-level process outlined and commit to keep this under review as we progress with the first SDS. We intend to proceed to develop the SDS focussing on a one to two-year time horizon, but potentially covering up to a five-year period depending on the policy area.

Rationale for our decision

4.18 We remain of the view that publication of an SDS in 2025 will bring several opportunities[32] and we welcome the broad support for this proposal from respondents.

4.19 Covering all codes that are in scope of energy code reform from the SDS's first publication will aid a smooth transition to the new governance framework, by embedding this consistently, and providing incoming code managers with relevant information to commence their role.

4.20 Regarding the level of detail provided in the SDS, we acknowledge the differing views on this and expect our approach will vary depending on the policy area. Our SDS consultation will provide an opportunity for stakeholders to understand and further comment on the proposed level of detail. We will also consult on our approach to prioritising content within the SDS.

[31] See section 2.
[32] As set out above.

4.21 We acknowledge the comments requesting clarity on roles and responsibilities for SDS implementation before code managers are appointed, and we expect to include this in our SDS consultation. We set out in our consultation that we did not propose to introduce an obligation to implement the SDS before code managers are in place, however, we proposed to introduce a standard prioritisation process for code panels (see section 5 below) which will support the introduction of the SDS.

Role of Stakeholders

Consultation position

4.22 We proposed adding an enduring, principles-based standard licence condition in all gas and electricity licence types. This would require a licensee to co-operate in the development and delivery of code modifications related to the SDS, when reasonably requested to do so by a code manager. We proposed that this condition would come into effect for each code when designated.[33]

4.23 We also proposed to include a similar obligation in codes, when the relevant code manager is appointed, in order to have effect for non-licensed code parties.

Summary of consultation responses

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?

4.24 Many respondents agreed with our proposal to introduce a new standard licence condition that would support the development and delivery of code modifications related to the SDS. Two respondents commented that a principles-based approach to drafting this standard condition would give more flexibility, allowing code managers to achieve the required aims in the most practical means available to them.

[33] When the relevant the code manager is appointed.

4.25 A few respondents raised concerns with this proposal. Their reasons included that introducing this standard condition could expose code parties to a potentially limitless obligation to provide code managers with information. A few respondents were concerned a principles-based condition isn't the correct approach in drafting the standard condition with one respondent commenting it would not provide the clarity needed. A few respondents questioned whether the obligation on licensees would be to 'support' or 'cooperate' with the code manager and asked for clarification.

4.26 A few respondents asked for more information on how non-licensed code parties would be obligated to comply.

Decision

4.27 We consider that the introduction of a new standard licence condition for all gas and electricity licences is the appropriate way forward. We intend to continue with developing our proposals in this regard and consult on drafting for the proposed licence and code provisions in due course. The primary purpose of the condition will be to reflect the important role of stakeholders in the delivery of strategic change, by providing that licensees are under an obligation to cooperate with the code manager in the development and delivery of code modifications related to the SDS, where reasonably requested.

Rationale for our decision

4.28 Our view remains that engagement from stakeholders will be crucial to the successful implementation of strategic change. We anticipate that this should be achieved through code managers' routine engagement with stakeholders in the modification process. However, this condition should provide important additional assurance that the code manager is able to obtain information it may need to implement change effectively and efficiently, if necessary.

4.29 We acknowledge comments from respondents disagreeing with a principles-based drafting approach. Our view is that a prescriptive licence condition could be too restrictive. We envisage that the codes could include further detail on how and when a code manager can reasonably request co-operation from a licensed or non-licensed code party.

4.30 For clarity, we envisage the standard condition would require licensees to 'cooperate' where reasonably requested by the code manager.

Next steps

4.31 We intend to consult on a draft SDS this winter before publishing the final SDS in spring 2025.

4.32 We also expect to develop a new standard licence condition in line with the above and intend to consult on this in due course.[34]

[34] We will also take account of the Modification Process Workgroup's views. We have published a report of this workgroup (Part 1) alongside this decision document.

5. Code governance arrangements

Section summary

This section sets out a summary of responses and our decisions on our proposals related to:

i) Stakeholder Advisory Forums, and

ii) the harmonisation of code modification prioritisation processes.

We also summarise respondents' views in relation to a potential review of the code objectives and set out our next steps.

Background

5.1 To implement the changes introduced by the Energy Act 2023 (the 'Act'), the existing code governance arrangements will need to change to reflect new roles and responsibilities.

5.2 These changes include the introduction of licensed code managers, who will be responsible for the governance of designated industry codes. Part of their role will be to provide recommendations to the Authority on proposed code modifications, in collaboration with industry stakeholders. Stakeholder Advisory Forums (SAFs) will play a key role in this process.

5.3 The Act also provides Ofgem with transitional powers enabling us to modify licences, contracts and codes.[35] In preparation for granting the first code manager licence, we have considered whether we might want to use these powers to implement changes to how the codes are governed, including a review of the code objectives and harmonising prioritisation processes for code modifications.

5.4 In our consultation we set out proposals relating to: i) the constitution of SAFs, and ii) the harmonisation of code modification prioritisation processes. We also asked an open question regarding the potential introduction of a code objective to support net zero.

[35] Part 6 and Schedules 12 and 13 of the Energy Act relating to energy code reform will enter into force once they have been commenced in accordance with section 334 of the Act.

Stakeholder Advisory Forum (SAF)

Consultation position

5.5 We set out that it is essential that stakeholder views are heard and accounted for within code manager recommendations. A key mechanism toward ensuring this is the introduction of a SAF for each code. Our consultation included three options for how a SAF could be constituted:

- Option 1: an open forum that any stakeholder could attend, where participants would not be required to act impartially
- Option 2: a fixed membership of constituency-based representation. Including a possible 'pool' of SAF members who could attend depending on the modification. No impartiality requirement but the possibility of including additional independent members
- Option 3: a fixed membership of stakeholders and independent parties acting impartially, plus a pool of additional members. This was our preferred option.

Summary of consultation responses

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

5.6 The majority of respondents agreed with our preferred approach of a fixed and impartial SAF membership. Reasons for supporting this included that it's similar in principle to existing arrangements in some codes and that it would balance the need for retaining governance expertise with the need to facilitate and accommodate a wider range of stakeholder views and engagement. It was also commented that this option facilitates continued membership from the parties to the relevant codes, which should ensure there are enough members who have relevant knowledge and experience to understand both the benefits and drawbacks of any proposed change, along with potential consequential impacts. Fixed membership was seen as enabling institutional memory and expertise.

5.7 Some respondents raised concerns over the ability for SAF members to act impartially, noting it could be difficult to achieve. One respondent highlighted that

consideration should be given to what happens if a SAF member does not act impartially. Questions were also asked by respondents on the role of independent members and the pool of members. These included how they would be appointed and if, and how, they would be paid.

5.8 One respondent rejected our preferred option because of the need for impartiality and their concern that views would be dismissed, eg where a significant negative impact on a small part of the market is outweighed by a larger benefit. Other respondents asked how best to avoid the expertise of existing panel members being lost, and how the right experts could be appointed for future consolidated codes.

5.9 A few respondents supported the other options proposed in our consultation, this included a view that option 1 would provide the widest participation. Another respondent thought option 2 would ensure relevant parties' views are fed into the modifications process while smaller parties can feed in via consultation.

5.10 There were some general comments about the introduction of SAFs, including concerns about diluting the industry role in network codes related to obligations on licensees to ensure the safety, reliability and resilience of the relevant networks. It was also suggested a technical or commercial expert panel could be introduced in addition to SAF.

5.11 Other questions or comments on wider policy questions related to the SAF included:

- SAF appointment process – with suggestions that this should be a transparent process, and support for elections, or, the code manager appointing SAF members
- a possible independent SAF chair – with differing views given on whether this is needed
- SAF voting – some support for SAFs voting to provide a majority view on modifications, while others felt it would duplicate the code manager role, oversimplify the output of the SAF, and minimise minority voices
- retaining existing sub-committees – some support for keeping existing forums and groups alongside SAF

- SAF role in decision making – with requests for clarity on what role the SAF would play in code modification decisions, including any appeals processes related to code manager or Ofgem decisions.

Decision

5.12 We have decided to take forward option 3. We intend to require that SAFs are constituted with a fixed impartial membership including independent parties and a pool of additional members.

Rationale for our decision

5.13 We consider that option 3 will create an appropriately constituted SAF that allows stakeholder input to be heard and understood in order to inform code manager decision-making. SAFs will include code party representatives who will be required to act impartially, alongside independent members and a pool of experts who can input as needed.

5.14 Our intention is that code managers will be required to consult with SAFs ahead of making certain decisions, and to demonstrate how they have given due regard to SAF views, including any minority views. We will further consider how voting arrangements could support or hinder the ability of code managers to assess a potentially broad range of stakeholder views. We also plan to consider the role of the SAF chair in surfacing different views and building consensus.

5.15 We acknowledge the risk highlighted by respondents that SAF members may not act impartially in practice. We consider any such risk can be mitigated through appropriate SAF governance. We also consider that the addition of independent members on the SAF will contribute toward effective impartial discussion, alongside the independent code manager's role as decision-maker.

5.16 We intend to further consider how the appointment of independent members could work, including what can be learnt from similar arrangements that are in place today, to ensure that the appointment of independent members for each code is proportionate. Our expectation is the cost of independent members would be met by the code manager. We also intend to further consider the role and membership of the wider pool of experts.

5.17 We are grateful to respondents who commented on wider considerations for the SAF role, including appointment processes, ensuring the necessary expertise is available, and the interaction with technical committees. We intend to look at the detail of these areas in future consultations and will consider this feedback as part of this process.[36] As our work progresses, we will engage with stakeholders on transitioning from current panels.

5.18 Future proposals on the process of appealing Ofgem's decisions to the Competition and Markets Authority will be consulted on by DESNZ in due course.

Prioritisation

Consultation position

5.19 We proposed to harmonise the ability of code panels to prioritise code modification proposals, through a consistent set of prioritisation criteria. We said this would promote more efficient governance of code arrangements, support the introduction of the Strategic Direction Statement (SDS) and facilitate a smoother transition for incoming code managers. We also considered it would support industry's ability to dedicate time and resource to focus on higher priority modifications.

Summary of consultation responses

Q14.[37] Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

5.20 Many respondents agreed with our proposals. A few respondents agreed this would support the introduction of the SDS, and a few others suggested it would facilitate a smooth transition for code managers. One respondent thought it would provide a near-term benefit for codes where modifications are not currently subject to prioritisation.

5.21 Other comments included that it is not clear why harmonised arrangements would be beneficial, and that variations in each code should be taken into account. It was also commented that prioritisation has presented challenges in some existing code

[36] We will also take account of the Modification Process Workgroup's views. We have published a report of this workgroup (Part 1) alongside this decision document.
[37] Q13 from our consultation on the implementation of energy code reform is covered out of sequence, below.

governance processes, with some modifications appearing not to progress, and the correct outcome of prioritisation may not be achieved.

5.22 One respondent who disagreed with our proposals argued it would place an obligation on code administrators prior to the implementation of code managers, who would need to assess modifications against the prioritisation criteria and respond to questions from proposers.

5.23 There was also a suggestion that assessing the impact of a modification proposal may lead to smaller parties' proposals being deprioritised, as they may not be considered material, but that the proposed outcome to the individual party may be significant.

5.24 A few respondents noted the importance of stakeholder engagement, with one respondent particularly highlighting the importance of engaging parties who are less able to participate in the code modification process. Two respondents supported the inclusion of rights for parties to challenge or appeal prioritisation decisions. A few respondents stated the need for the prioritisation criteria to be clear and transparent, and two respondents suggested that external deadlines should continue to be taken into account.

Decision

5.25 We have decided to take forward our proposals to harmonise and extend the ability of code panels to prioritise the assessment of code modification proposals, and to introduce a consistent set of prioritisation criteria.

Rationale for our decision

5.26 We remain of the view that extending the ability of code panels to prioritise change now, across the codes, would promote more efficient governance of code arrangements. We also consider that it would support industry's ability to dedicate time and resource to focus on higher priority modifications and help to facilitate efficient cross-code change.

5.27 We also expect that introducing consistent prioritisation criteria and harmonising and extending the ability of code panels to undertake this activity will support the introduction of the SDS and help facilitate a smooth transition to the new code management arrangements.

5.28 For those codes where no prioritisation currently occurs, we recognise this change may result in an increased role for the code panel, who may need support from code administrators. However, given this process already occurs in a number of codes today, we do not anticipate that any additional role for code administrators would be material.

5.29 We note the comments from respondents on the design of the prioritisation process and criteria and we intend to consult on detailed implementation in an upcoming consultation.

Code Objectives

Consultation position

5.30 We did not make a specific proposal related to updating the relevant code objectives, however, we sought views on two options related to the code objectives prior to the appointment of code managers. This was informed by recent changes to our statutory duties,[38] specifically to support the net zero duty of the Secretary of State, as well as our new duty to prepare and publish an annual SDS:

- Option 1: update and republish existing guidance on assessing Greenhouse Gas (GHG) emissions. Retaining the existing 'materiality' threshold would mean that assessment would be provided where the impacts are material.
- Option 2: introduce a code objective to support the delivery of the net zero target for 2050 and five-year carbon budgets. Assessment against this objective could potentially be supported by Ofgem guidance.

Summary of consultation responses

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?

[38] As set out at section 4AA of the Gas Act and section 3A of the Electricity Act 1989, our principal objective is to exercise our functions in a way that protects the interests of existing and future consumers. The consumer interest that Ofgem has regard to now include the Secretary of State's compliance with its duties under the Climate Change Act 2008, particularly the net zero target for 2050.

5.31 Of those respondents who selected a preferred option, many supported Option 2. Although no respondents selected Option 1 as their preferred option, there were some respondents who supported either option and did not state a preference.

5.32 Of those who supported Option 2, some respondents agreed it would align with our new statutory duty to support the net zero duty of the Secretary of State and one other respondent noted it would also align with the wider objectives of the National Energy System Operator (NESO). Other reasons for support included that it would increase alignment in decision-making between Ofgem and the code manager; facilitate a consistent approach across code modifications; widen the assessment of a modification beyond quantitative assessments of the GHG emissions impact, where material; and help ensure that net zero impacts are considered when modifications are raised.

5.33 Some respondents expressed concerns with Option 2, including potential impacts on resource and cost, with a suggestion that training would be required to ensure the relevant skills and expertise are in place to assess the net zero impacts of modifications. One respondent also cautioned that the assessment of net zero benefits could, in some cases, be a significant undertaking, requiring additional skills and expertise.

5.34 There were a range of detailed comments related to how a net zero code objective could be worded and/or assessed. A few respondents considered that the assessment process would need to be clearly defined, particularly how a net zero code objective should be assessed alongside the other code objectives. One respondent suggested the GHG impacts of a modification should only be assessed where it is possible to calculate such values, while another respondent had a view that the net zero impacts of a modification should be subject to a materiality threshold.

5.35 A few respondents supported the inclusion of Ofgem guidance on how a net zero code objective should be assessed, with a comment that this would allow a consistent approach to be taken.

5.36 Comments in support of Option 1 included that maintaining the 'materiality' threshold would be a good way of ensuring modifications that would not have a material impact on this area are not impeded. Concern was also expressed that the

impact of a modification on GHG emissions could be challenging to measure and should only be required where it is possible to calculate such value, rather than being mandatory in all cases as this would undermine the credibility of the assessment. One respondent also commented that Option 1 may result in changes being considered more in isolation, rather than with a shared outcome.

Next steps

5.37 We welcome the views and insights provided by respondents in relation to the potential introduction of a code objective related to net zero. Given the responses received, and in order to reflect the importance of embedding consideration of tangible progress to carbon budgets and net zero objectives in industry code governance, we are minded to proceed with Option 2. We will consult on our proposed way forward in an upcoming consultation.[39]

5.38 In our consultation, we also raised a wider question about whether the code objectives should be reviewed as part of code reform in order for them to be better aligned across the codes. We are grateful to those respondents who provided a view. Some respondents offered comments on this, including that it would help ensure consistency and simplification across codes, while a few respondents cautioned that some existing differences are necessary and proportionate and therefore should remain. We propose to consider whether any changes should be made to the code objectives in light of code consolidation, prior to any further consideration of wider alignment.

5.39 We intend to consult further on detailed code governance arrangements, following the conclusion of our Modification Process Workgroup. This will include additional detail for SAF arrangements, and proposals for implementing a consistent set of prioritisation criteria.

[39] We will also take account of the Modification Process Workgroup's views. We have published a report of this workgroup (Part 1) alongside this decision document.

6. Transition

Section summary

This section sets out a summary of responses and our decisions on our proposals related to transitioning the gas and electricity codes to the new governance model. We set out:

i) our approach to transitioning to the new governance framework, and

ii) the sequence in which we expect to complete the transition.

Background

6.1 The Energy Act 2023 (the 'Act') grants Ofgem transitional powers until 2030 to implement a new governance framework for the gas and electricity industry codes.[40]

6.2 In our consultation we proposed to deliver the transition from the current framework to the new governance framework in phases, aiming to minimise disruption to the work of the codes. The new governance framework will be in place for each code when a code manager is appointed.

6.3 In our consultation we set out proposals relating to: i) our approach to transition, and ii) our proposed transition sequence.

Approach to transition

Consultation position

6.4 We identified four potential approaches to transitioning to the new governance framework, and stated our preference for a phased approach:

- 'Big Bang' approach – this approach would bring the new governance arrangements into effect for all codes at the same time, ensuring consistency across all code governance processes
- Concurrent processes – this approach would start the transition process for all codes simultaneously, but due to differing requirements (eg consolidation vs

[40] Energy Act 2023 Schedule 12. Part 6 and Schedules 12 and 13 of the Energy Act relating to energy code reform will enter into force once they have been commenced in accordance with section 334 of the Act.

no consolidation), the processes would be expected to complete at different times

- Phased approach (preferred) – this approach would allocate each code to one of two or three transition phases, with resource dedicated to each phase in turn (with some overlap between activities at the end of one phase and the start of the next)
- Fully sequential – this approach would implement the new arrangements one by one, with the process of implementing the reforms in one code largely finishing before work on the next begins.

Summary of consultation responses

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

6.5 A large majority of respondents agreed with our proposal to adopt a phased approach. Those that agreed with our proposal believed it would allow resource and workloads to be managed appropriately and would reduce the overall complexity of transition, ensuring it would not be overly burdensome to industry stakeholders.

6.6 A few respondents disagreed with our proposal. One respondent supported a sequential approach due to concerns over industry resource and a lack of evaluation of the previous phase. Another respondent supported the 'big bang' approach due to concerns that a phased approach would result in a long period of uncertainty for stakeholders.

6.7 None of the respondents supported the concurrent approach.

Decision

6.8 We have decided to proceed with our proposal to adopt a phased approach to transitioning the gas and electricity codes to the new governance framework.

Rationale for our decision

6.9 The majority of respondents agreed with our proposal to adopt a phased approach to transitioning codes. We continue to believe this is the optimum approach, to reduce resource burden and risk of disruption to industry processes.

6.10 The phased approach will allow for work to be started earlier and be undertaken concurrently where beneficial, with some overlap between the phases. The benefits of the phased approach will address the concerns over lessons learned and undertaking some of the work concurrently will minimise the period of uncertainty for stakeholders.

Transition sequencing

Consultation position

6.11 We proposed a sequence of three phases with two codes in each phase (in line with our consolidation proposals):

- Phase 1: Balancing and Settlement Code (BSC) & Retail Energy Code (REC)
- Phase 2: gas network code & electricity commercial code
- Phase 3: electricity technical code & Smart Energy Code (SEC).

Summary of consultation responses

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

6.12 The majority of respondents provided comments on considerations that might inform the transition sequence. This included statements around resource availability, consideration of potential dependencies and utilising lessons learned. Many respondents also requested additional information on timings to allow industry to facilitate change at the required pace.

6.13 One respondent stated that they believe Ofgem is underestimating the time and effort (and cost) to make the governance changes, and made comparisons between code reform and developing a new code. Another respondent suggested that the development work on the electricity technical code under Phase 3 needs to start in parallel with Phase 1 to achieve the aspiration for a go live by 2030, due to its complexity.

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

6.14 The majority of respondents agreed with our proposed three-phase transition sequencing, although some respondents also requested clarity on the timelines for implementation.

6.15 Many respondents offered alternative sequencing of codes. These included suggestions to move the gas network code to Phase 1 along with the BSC and REC, and to swap the electricity commercial code and electricity technical code around (ie technical code in Phase 2 and commercial code in Phase 3).

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

6.16 Some respondents commented on the need for robust stakeholder engagement and many sought further clarity on the transition in terms of coordination.

6.17 One of the common themes identified in the responses was the need for Ofgem to set out timelines for each phase, providing a holistic 'plan on a page' to ensure that industry fully understand what is being reformed and the timelines involved.

6.18 One respondent stated that lessons should be taken from the REC[41] and that Ofgem should work with experienced industry parties to predict anomalies and how best to address these.

Decision

6.19 We have decided to proceed with the three-phase transition sequencing as proposed in the consultation, noting our decisions on code consolidation set out above in section 3:

- Phase 1: BSC & REC
- Phase 2: gas network code & electricity commercial code
- Phase 3: electricity technical code & SEC.

[41] This process consolidated the Master Registration Agreement (MRA) and the Supply Point Administration Agreement (SPAA).

Rationale for our decision

6.20 We note that the majority of respondents agreed with our proposed sequencing. When determining the transition sequencing, we have considered how delivering code reform might help to support the delivery of both Ofgem and government policy priorities.

6.21 We recognise that the introduction of the new governance framework could impact the delivery of significant code changes that are already in progress and we will further consider how the transition is both managed and timed.

6.22 At an operational level, we propose to maximise opportunities to deliver code reform quickly where possible, while minimising disruption to ongoing code processes.

6.23 We have carefully considered responses that suggested alternative sequencing of the codes for transition which included swapping the electricity commercial code and electricity technical code around (ie technical code in Phase 2, commercial code in Phase 3). We consider that this alternative sequence would mean potential missed opportunities to support connections reform and facilitate flexibility. We also note it could negatively impact the progression of a greater number of beneficial code changes, as the two codes being consolidated to form the commercial code have a greater number and frequency of code changes, compared to the four codes to be consolidated into the technical code.

Next steps

6.24 We recognise the need for extensive stakeholder engagement to achieve an effective and timely transition to the new arrangements. We acknowledge that many respondents requested further detail about the timeline for implementation, to minimise uncertainty for stakeholders and allow industry to manage resources. In an upcoming consultation we will set out the proposed timings and programme of work in greater depth.

Appendices

Appendix 1 – Consultation questions

Section 2

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?

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?

Section 3

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.

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.

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

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?

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

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

Section 4

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

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

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?

Section 5

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

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?

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

Section 6

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

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

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

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

Appendix 2 – Subsidiary documents

The following subsidiary documents have been published on Ofgem's website alongside this decision document here:

- Code consolidation – final impact assessment
- Modification Process Workshop report (Part 1)
- Non-confidential responses received to our consultation on the implementation of energy code reform

Appendix 3 – Glossary

Acronyms	Definition
BEIS	Department for Business, Energy, and Industrial Strategy
BSC	Balancing and Settlement Code
CSDBs	Central System Delivery Bodies
CMA	Competition and Markets Authority
CSS	Central Switching Service
CUSC	Connection and Use of System Code
DCC	Smart Data Communications Company
DCUSA	Distribution Connection and Use of System Agreement
DESNZ	Department for Energy Security and Net Zero
DTS	Data Transfer Service
GEMA	Gas and Electricity Markets Authority
GHG	Greenhouse Gases
IGT UNC	Independent Gas Transporters Uniform Network Code
NESO	National Energy System Operator. Named in the Energy Act 2023 as Independent System Operator and Planner (ISOP)
NPV	Net Present Value is used to refer to summative values that weigh the transitional costs of consolidating the codes against the enduring benefits of reform
REC	Retail Energy Code
SAF	Stakeholder Advisory Forum, a proposed body (or bodies) consisting of a range of stakeholders which will provide expert assessment of modifications to the code manager
SEC	Smart Energy Code

SDS	Strategic Direction Statement, which will set out our vision for how the codes should evolve on an annual basis
SQSS	Security and Quality of Supply Standard
STC	System Operator- Transmission Owner Code
UNC	Uniform Network Code