
Modification Process Workgroup Report (Part 1)

Introduction

What is the Modification Process Workgroup (MPW)?

Alongside our January 2024 consultation on the implementation of energy code reform, we published a request for volunteers to join an Ofgem led workgroup.¹ The purpose of the workgroup is to support Ofgem in the development of an updated code modification process as part of implementing energy code reform.²

The MPW has a fixed membership of 16 code governance experts, drawn from a range of industry stakeholders.³ Three members from Ofgem's Code Governance Reform team also joined the workgroup to both chair and facilitate the discussion. We held three workgroup sessions between May and July 2024 and are due to hold another two sessions in September.⁴ We intend to publish a second part to this report following the September sessions, alongside a further consultation on the implementation of energy code reform.

What is the issue?

As part of energy code reform, the code modification process will need to be updated to reflect the new roles and responsibilities that will be created.

The modification process will need to reflect:⁵

- the new functions of the Authority in the Energy Act 2023, including the duty to publish an annual Strategic Direction Statement (SDS) and the ability to direct system delivery bodies
- the role of new licensed code managers, and the role of stakeholders through Stakeholder Advisory Forums (SAF).

¹[Consultation on the implementation of energy code reform \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/consultation/implementation-energy-code-reform)

² MPW Terms of Reference can be found here: [Expressions of interest to join the Modification Process Workgroup \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/consultation/expressions-interest-join-modification-process-workgroup). The ToR were adopted in line with the draft published.

³ [Energy Code Reform: Membership of the Modification Process Workgroup \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/consultation/energy-code-reform-membership-modification-process-workgroup)

⁴ MPW meeting took place on: 14 May, 23 May and 12 July 2024. Although all sessions were originally planned to take place between May and July, Ofgem revised the timetable due to the pre-election period.

⁵ In line with the aims of energy code reform [Energy code reform: governance framework - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/energy-code-reform-governance-framework)

Workgroup sessions

This report has been structured to align with the order of stages in developing and processing code modifications, rather than the order in which workgroup discussion took place. The outputs of the discussions have been themed, with observations, issues and questions raised during the workgroup sessions grouped together under the most relevant theme.

Workgroup meetings were held by Microsoft Teams. Workgroup members were invited to engage in the discussion verbally and/or by using the Teams chat function, or, Mural whiteboard. It was agreed that members would not allocate any views to individuals outside of the sessions.

Ofgem chaired the meetings and provided a secretariat function. This report represents the outputs of the sessions.⁶ A draft of this report was circulated by Ofgem to members of the workgroup for comment prior to publication.

Next steps

Two further sessions of the MPW are due to take place in September and we intend to publish a second and final part to this report. Ofgem will consult on proposals related to the code modification process. This workgroup report will, among other things, help to inform future proposals.

⁶ Separate minutes were not taken.

Workgroup content

Session	Content	Areas for discussion
Session 1	SDS and code manager delivery plans	How the Strategic Direction Statement (SDS) and code manager delivery plans will impact the code modification process.
Session 1	Potential 'net zero' code objective	The impacts of possible new net zero code objective on the modification process.
Session 1	Alignment of code objectives	Identifying benefits in aligning code objectives.
Session 1	Cooperation licence condition	Identifying the types of information code managers would reasonably require from code parties, as part of the development and delivery of code modifications related to the SDS.
Session 2	Stakeholder Advisory Forum (SAF)	The roles SAF could have in the modification process; how SAF members could be elected.
Session 2	Modifications: raising – owning – alternatives	Who should be able to raise a modification; proposer ownership; who should be able to raise alternative modifications.
Session 3	Pre-modification process	What elements should be included in a standardised pre-modification process.
Session 3	Triage criteria and process	What information a standardised triage criteria should include and what role SAF should have in the process.
Session 3	Prioritisation process	Identifying a future prioritisation criteria and process.
Session 3	Workgroups	The role of workgroups in future arrangements, and what code managers could do to make workgroups more efficient.
Session 3	Self-governance criteria	How the self-governance criteria may need to change as part of an updated code modification process.

Workgroup report (Part 1)

SDS and code manager delivery plans

The workgroup considered how the SDS and code manager delivery plans will impact the code modification process. The impact on industry parties and Ofgem's role in the process were also discussed.

SDS content and process

The workgroup questioned how to ensure the SDS is meaningful. Comments included that the SDS should be (and remain) a meaningful annual activity.

Questions were raised over the potential for the SDS content to change annually whereas modifications from the previous year may not yet be implemented. Clarity was sought on what impact this would have on these modifications. It was also highlighted that some SDS-related code changes may not be top priority and will need time to develop.

The workgroup indicated that it would be helpful for Ofgem to provide clarity in certain areas, to fully understand the impact the SDS will have on the code modification procedures:

- will the SDS set clear deadlines for modification implementation?
- Will the SDS explain how each code will work together on an issue?
- Will Ofgem be creating formal workgroups for SDS development?

Impact on industry parties

The workgroup sought clarity on Ofgem's expectations on code administrators, code panels, and industry for the first SDS.

The workgroup raised concerns that code administrators may not have the resources to implement the SDS before code managers are in place, and this may leave industry to carry out the responsibilities of the code manager.

Under the new enduring processes, once code managers are in place, there was concern that the SDS could overwhelm industry meaning other issues that are important to stakeholders are not progressed. It was noted that Ofgem should avoid becoming the 'monopoly of wisdom' for change.

The workgroup indicated that it would be helpful for Ofgem to provide clarity on how cross code coordination arising from the SDS will work. Including whether Ofgem

expects to have an oversight role for cross code changes that arise from the SDS or if the code managers will take it forward.

Delivery plans

Views included that responsibility for developing delivery plans related to the SDS should sit with the code manager, with the SAF having a consultative role. It was also noted that part of the SAF role should include challenging the code manager's delivery of the plan.

The workgroup sought clarity on how new modifications could be incorporated into the delivery plan throughout the year.

Cooperation licence condition

The workgroup considered what information and/or data code managers might reasonably require from code parties, as part of the development and delivery of code modifications related to the SDS. It was felt that it should be clear as to where and how parties will be required to engage with the industry codes processes. Comments also included that industry engagement on change control will primarily come from interaction with the pre-modification and modification processes. It was highlighted that a licence obligation that is too broad may result in an unjustified burden on licensed parties.

Purpose of a licence obligation

It was queried how a licence obligation would help with cooperation when stakeholders are already a party to the code, and that the need to require cooperation would indicate the modification process does not work well.

Requesting information

The workgroup highlighted that information requirements should be targeted, transparent, and have a clear business rationale. It was suggested that requests by the code manager should not duplicate any already made by Ofgem, and they should be linked to the code objectives.

Other comments included that feedback from the code manager to code parties on how their input was used could demonstrate that the request was useful. Timing of requests was also considered as potentially key to successfully getting relevant information.

The workgroup encouraged Ofgem to consider i) how the code manager will demonstrate that their request for information or data is reasonable, and, ii) what protection would be in place for commercial parties if sharing commercially sensitive data with a licenced code manager.

Enforcement

The workgroup queried how enforceable the proposed standard condition would be, and whether enforcement action would work in practice.

Code objectives

Possible new 'net zero' code objective

The workgroup considered the impact a new net zero code objective could have on the modification process. The benefits and challenges of a net zero objective were highlighted, and the group discussed how a net zero code objective could be assessed.

Benefits and challenges

There was support for the introduction of a new net zero code objective, including that it would align with Ofgem's new statutory duty. Challenges were also identified, including that it could become a barrier to proposing modifications. It was also noted that some modification proposals may have a negative impact on a net zero objective but could improve arrangements.

Quantitative assessment

Comments included that quantitative analysis should only be conducted when a certain materiality threshold is reached. When quantitative assessment is needed, the time required to carry out this assessment should be considered. There were concerns that obligations to provide quantitative analysis could slow the process down, be expensive, and/or create a barrier for some participants. The potential for quantitative analysis work being needed for multiple alternative modification proposals was raised. It was further suggested that the analysis could be reviewed at a later date to check if benefits were delivered.

The workgroup suggested that clarity was needed on what type of modifications quantitative analysis should be used for, and who would be in control of quantitative analysis.

Qualitative assessment

There were supportive comments for qualitative analysis, with workgroup members highlighting that criteria could be used to identify the effect a proposal has on net zero. Some workgroup members, however, questioned how beneficial this type of analysis would be.

Skills and expertise

Comments included that code managers should demonstrate their skills in this area before appointment, including for example training on carbon literacy. There was some support for industry advising on net zero impacts.

Guidance

There was support for guidance to be introduced alongside a new net zero code objective. It was felt that guidance would aid a common approach from code managers and help all stakeholders understand what needs to be considered when bringing forward change. Practical suggestions for the guidance included ensuring that it was usable and concise, and that it defined low, medium, and high-level impacts. It was questioned whether there should be guidance for one objective or all objectives.

Growth Duty and SDS

The workgroup also considered how Ofgem's growth duty and the SDS might interact with any net zero code objective. It was queried whether net zero should be a code objective or if it should drive what is included in the SDS.

Alignment of code objectives

The workgroup discussed opportunities for beneficial updates or alignment of code objectives.

There was some support for a universal set of objectives across codes that could include, for example, benefits to consumers, promotion of competition, EU legislation, efficient operation, growth duty, and net zero. These could be supplemented by more specific code objectives where needed.

Comments also included that the objectives should be part of the relevant code, be clear, and easy to find. It was queried if a process of alignment could include critically examining each of the objectives to ensure they are needed.

Stakeholder Advisory Forum

The workgroup considered Stakeholder Advisory Forums (SAF) including its membership, role in the modification process, and the relationship between the SAF and the code manager.

Independent members

The range of views included that it would be important to have a proportion of independent members on SAFs, and the code manager should be able to introduce independent experts when needed. Another view was there should only be independent members appointed when expertise cannot be found elsewhere.

There were some comments that it can be challenging for independent members to put time into the process, especially where the role is unpaid.

Impartial

Comments included support for SAF members to act impartially. Reference was made to how impartiality requirements have benefited the running of existing panels. It was noted that Ofgem will need to consider how to remove members if they do not act impartially, and, clarity was sought on whether SAF members would sign impartiality agreements.

Representative

Comments included that all stakeholders should be properly represented on SAF and that differing approaches will likely be needed for appointing eg industry members and consumer representatives. Comments also included that it would be important to ensure an appropriate spread of expertise in the SAF. Members should also have relevant knowledge of various industry parties and the obligations different parties have. It was suggested that an assessment should be carried out after a member is selected (if by election) to ensure they have the appropriate skills to carry out the role.

It was suggested that consultant organisations should be allowed to represent smaller parties.

Continuity

Views included support for core members having a longer term of service.

Pool of members

Concerns were raised that pool members may disengage with the process if their topic area is not discussed on a regular basis, which could particularly affect smaller parties and new entrants. It was queried how large the pool would be.

Role of SAF

Comments included that SAF should assess modifications against code objectives and make recommendations to the code manager as to whether modifications should be approved. It was felt that SAFs should avoid replicating workgroups.

The workgroup indicated that clarity would be helpful on whether the size of SAF would differ per code, and whether there will only be one SAF per code.

SAF and the code manager

The workgroup highlighted the importance of the code manager and SAF having a collaborative approach. It was also suggested that the SAF should support the code manager to fully understand change proposals and potential impacts on parties to the code and help to ensure that the code manager is aligned to the strategic direction.

It was also noted that the role of the SAF should include checking the code manager's understanding of issues and effects.

Some members commented that responsibilities need to be clear in an updated modification process and the roles of the code manager and SAF should be clarified.

Comments included that an obligation should be included in the code manager licence to ensure they give due regard to SAF's views and that consideration should be given to how the process would work when the SAF and code manager disagree on an issue.

Pre-modification process

The workgroup considered the scope and structure of a standardised pre-modification process.

Benefits of a pre-modification process

It was observed that a pre-modification process can result in better developed modification proposals entering the process, and that it could encourage less well-resourced parties and new entrants to participate in the modification process. It was also noted that the process can help identify cross code issues and prevent unnecessary proposals being raised, ie with an issue being resolved by other means.

It was observed that helpful discussions and timely progression of issues are important aspects of an effective pre-modification group.

Forum

There was support for a regular forum as it was felt that it can ensure consistency and knowledge retention. Support was also noted for an open forum as it can reduce the burden on code parties by enabling them to attend only when needed which is particularly beneficial to new/smaller participants.

There was support for parties to represent their own interests at pre-modification forums, rather than being impartial. Comments also included that the pre-modification process should seek to detail how other parties are impacted by modification proposals.

Concerns about the size of the forum were raised with comments referring to the need to obtain the correct expertise without the group becoming too large.

Process

There was support for the pre-modification process to be optional for proposers as opposed to mandatory.

The workgroup considered how any meetings should run. It was felt that strong chairing and clear agendas/deliverables are important. It was also noted that issues should be brought to a timely close after discussion.

There was support for guidance to be developed on how issues may move across codes.

There was a view that some elements of the pre-modification process may need to differ across technical and commercial codes, while others felt the pre-modification process should be generic enough to cover all codes in a consistent form.

Outputs

It was felt that consistency in how the pre-modification process is documented in modifications would be useful. It was suggested that outcomes should be clearly reported to understand how information/data was gathered and where there is complete consensus on an issue. This could help prevent repetition of information/data gathering at the modification stage.

It was noted that modification proposals that go through the pre-modification process should include a report section that includes pre-modification discussions/outcomes, including any indication of support/consensus.

Triage Criteria

The workgroup considered what should be included in a standardised triage criteria. The benefits of criteria were also covered, as well as the role of the code manager in this process.

Benefits of a triage criteria

Workgroup members commented that triage criteria would ensure modification proposals are well developed before entering the modification process. It was also noted that triage criteria could help mitigate the risks of the modification process being overrun with proposals, and potential proposal stagnation.

The workgroup considered what standardised triage criteria should include. There was support for this to include proposers being required to explain why their modification would deliver benefits. There was also support for requiring a problem statement that uses plain language to ensure clear articulation of the modification.

Process

Suggestions were made to make the application form helpful and easy to interact with, including having a tick box approach rather than free text where possible.

It was suggested that, if a modification does not meet the triage criteria, it could be required to go through the pre-modification process where further development was required. Views were also expressed that code managers should not be able to prevent changes from progressing.

There was some support for SAF to have some input into the process, and it was suggested that the code manager may need support to understand problems.

There was support for parties to appeal code manager decisions to not accept a proposal into the process and the SAF was suggested as a possible route of appeal.

Role of code manager

There was support for the code manager to act as a critical friend to parties raising a modification proposal, which was noted as especially valuable for new entrants. There were also views that the skillset of the code manager is important to ensure they can make the right assessment at triage stage. There was concern that the code manager may not have the expertise to carry out this assessment.

Prioritisation Criteria

The workgroup considered what should be included in standardised prioritisation criteria. Members provided observations on how prioritisation works in current arrangements, and how that might inform the design of a prioritisation process.

Criteria

There was support for including urgency in the prioritisation criteria, and it was noted that urgency criteria should be specific.

The difference between genuine urgency and modifications which have been raised late was discussed, and it was felt the code manager should hold proposers to account for 'avoidable' urgency. It was suggested the code manager could carry out a post implementation review of urgent modifications to check if urgency was needed.

There was also some support for criteria to include impacts on net zero, consumer benefits, cross code impacts, and system stability. It was noted that the criteria may need to allow code managers to prioritise a modification that is linked to another modification.

It was noted that technical complexity should also be considered in prioritisation criteria as there is a risk that the code manager may deprioritise a modification proposal because of a lack of understanding.

Process

There was support for the process to be transparent and fair, and that a clear explanation should be given as to why modifications are on a particular progression path.

There was support for modifications to be reviewed over a defined time period to avoid a backlog of modifications.

There was a suggestion that guidance should be introduced on planning for code change 'freezes' under Ofgem Significant Code Reviews.

There was support for a route to appeal if a party disagrees with the code manager's prioritisation decision. It was suggested that SAF could provide an oversight role on the progression of modifications and that code managers should be assessed on how well they can prioritise and manage change.

Resourcing and cost

It was suggested that code manager resourcing and cost should be considered to ensure code managers can deal with prioritisation. It was felt that sufficient budget should be allocated for code managers to deal with an influx of change proposals, and a suggestion was made that prioritisation should not be a default part of the process as it is only needed when there is not enough resource.

Risks

It was felt that prioritisation is difficult because of the degree of subjectivity and is reliant on the code manager's understanding of the energy markets and industry party role/functions, and that new entrants and existing parties may be frustrated if their modification is not prioritised.

It was also commented that de-prioritising modifications that are commercially important to the proposer risks alienating some parties.

Modification process

The workgroup considered how Ofgem's reforms will impact various aspects of the modification process. In particular, the raising of modification proposals, proposer ownership, alternative modifications, and self-governance. The group discussed the key roles that SAF and impacted parties may have in an updated code modification process.

Raising modification proposals

There was support for any interested person being able to raise a modification. Reasons included that it was in the spirit of code reform to democratise the process, and that it would allow innovators to raise changes. There was, however, also a concern that an interested person who is not a party to the code may raise a modification that benefits them commercially without having to contribute to its cost.

There was some support for the code manager being able to raise modifications without any restriction, though an alternative view was also given that that the code manager should be limited to raising modifications to those related to the SDS and code manager processes only.

Proposer ownership principle

There was support for the concept of 'optional' ownership whereby proposers would decide if they wanted to retain ownership of their modification proposals. It was felt this could benefit smaller parties and be useful if a proposer moves on to a new role.

It was also suggested that a proposer could retain ownership of the intended outcome while the code manager developed the detailed solution.

Alternative modifications

There was support that anyone should be able to raise an alternative modification as it would provide the widest range of options that could then be assessed through the triage criteria. Other comments argued that limiting the number of alternatives would encourage the proposer to submit a well-developed modification proposal.

Views also included that raising alternatives should be limited to workgroups or code managers. Solely relying on workgroups to raise alternative modifications raised some concerns among the group, including that useful alternatives may not be brought forward. Other comments included that raising alternatives should not be limited to the code manager as it may give them too much power over the process. It was also suggested that code managers could prefer a certain solution based on costs and burden.

Self-governance

The workgroup considered how the self-governance criteria could potentially change as part of an updated code modification process. It was suggested that a review of self-governance criteria and process would be needed to reflect the new roles and responsibilities. It was felt that the skillset of the code manager and trust in their decision-making would be important. There was support for an appeal route to the Authority, as per the current process, being retained.

It was also noted that the role of the SAF should include checking the code manager's understanding of issues and effects.

Workgroups

Modification workgroups were discussed, including what makes a successful workgroup in current arrangements, when a workgroup would be needed in new arrangements, and what a code manager could do to make workgroups more efficient.

Current arrangements

It was noted that workgroups engage new entrants, allow parties to transfer knowledge, and help to develop modification proposals.

It was felt that standing groups covering multiple modifications can be more efficient as they tend to bring the right people together and are more concise. Clear agendas and timings were also noted as important to enable parties to choose which parts of the agenda/modifications are of interest to their party role.

It was noted that dedicated sub-committees could also discuss complex issues and feedback to the workgroup to enable further engagement.

Workgroups in future arrangements

It was noted that workgroups could be used in various circumstances including for complex modifications, underdeveloped modifications, and when the potential for alternatives needs to be explored.

There was some support for having workgroups as the 'default' for every modification noting that outcomes are better when there is industry participation.

Quality chairing was noted as important in future arrangements and it was felt that the chair should have some knowledge of the subject and wider understanding of industry and party roles.

It was suggested that SAF should receive a clear but concise account of workgroup development.

Role of the code manager

The code manager should have the appropriate skill set and understanding of the code rules to enable them to ask the correct questions of workgroups and refine modifications. It was also felt that they should have an understanding of the different industry roles and their primary functions, and how different parties use the code.

It was felt that if the code manager has the correct resources there should be less need for workgroups to develop modifications as code managers should produce well developed solutions.

Several members of the group noted that SAF should not replicate or replace working group activity.