

Consultation on the Implementation of Energy Code Reform

Briefing pack



Meeting objectives

- Introduce the **key proposals** in our consultation on the implementation of energy code reform
- Hear **your initial views and questions** on the consultation
- Set out **next steps** including the DESNZ/Ofgem consultation on code manager selection and licensing

Agenda		Approx time
1.	Introductions and ECR Progress to date	~5 mins
2.	Summary of proposals in consultation	~10 mins
3.	Next steps and stakeholder engagement	~5 mins
4.	Questions	~10 mins
Appendices	<ul style="list-style-type: none"> • Designation, code consolidation and transition • Stakeholder Advisory Forums, strategic direction, and code mod processes 	

Who we are

Carmel Golden
Deputy Director – Industry Rules

Lisa Charlesworth
Head of Code Governance Reform
- Governance / implementation (project lead)

Gavin Baillie
Head of Industry Codes
- Strategic direction / BAU codes

Dr. Sean Winchester
Principal Policy Expert
- Code consolidation / code manager selection

Colin Down
Principal Policy Expert
- Code manager licence conditions / CSDBs

Focus of this presentation

Ofgem - Energy code reform: implementation consultation (closing 23rd April)

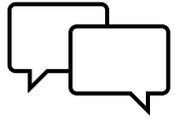
- Initial designation of in-scope codes and systems
- Preferred options for code consolidation
- Introducing our strategic direction statement
- Approach to updating the code modification processes
- Approach to code governance reform transition

DESNZ/Ofgem - Energy code reform: code manager licensing and secondary legislation (closing 5th May)

- Code manager licence conditions
- Code manager selection regulations

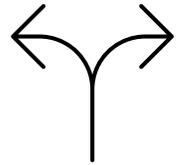


Energy Act 2023 empowers Ofgem to implement code governance reform. To enable this, we need SoS secondary legislation and standard licence conditions.



Consultation

In 2019 and 2021, we consulted on the overall approach to code reform, with a focus on what the new governance framework should look like and who should take on any new roles.



Decision

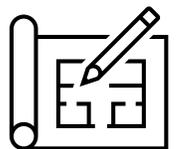
In 2022, we decided on the nature and scope of code reform, covering 11 codes and 5 central systems, and confirmed our intent to retain a strong role for industry in advising, informing and supporting code managers through the introduction of new stakeholder advisory forums.



Legislation

In 2023, we welcomed the successful passage of the Energy Act, which established the new code manager licensing regime and granted Ofgem new strategic code functions, including:

- the duty to publish an annual strategic direction statement;
- the power to select code managers;
- the power to make direct code changes under specific circumstances; and
- the power to issue enforceable directions to central system delivery bodies.



Implementation

In 2024, we are working jointly with DESNZ to finalise remaining elements of the code manager selection and licensing process. We are also preparing to implement the new governance framework, using transitional powers granted by the Energy Act 2023 to Ofgem for a period of up to seven years.

2. Summary of key proposals in the consultation



Designation

We propose to recommend that the SoS designate the previously identified codes and central systems for the purposes of activating our transitional powers in the Act, in line with the decision set out in the April 2022 government response.



Consolidation

We are consulting on a proposal to consolidate nine of the existing codes into the following three configurations: an Electricity Commercial Code (ECC); an Electricity Technical Code (ETC); and a Unified Gas Network Code (UGNC). None of these options would result in the consolidation of the BSC, REC or SEC.



Transition

We have proposed a phased approach to transition and are consulting on an indicative sequence (subject to code consolidation): BSC and REC during Phase 1; ECC and UGNC during Phase 2; and ETC and SEC during Phase 3.



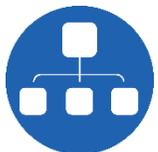
Stakeholder advisory forums

The role of industry participants will remain a vital and central element of industry code governance. We want to retain what works well with existing Panels and Committees. We set out our preferred Option 3: a fixed, impartial membership.



Strategic direction

We propose to work closely with stakeholders to develop a draft SDS during 2024. Until code managers are in place, the progression of SDS-related code modifications will be encouraged through existing processes.



Modification process

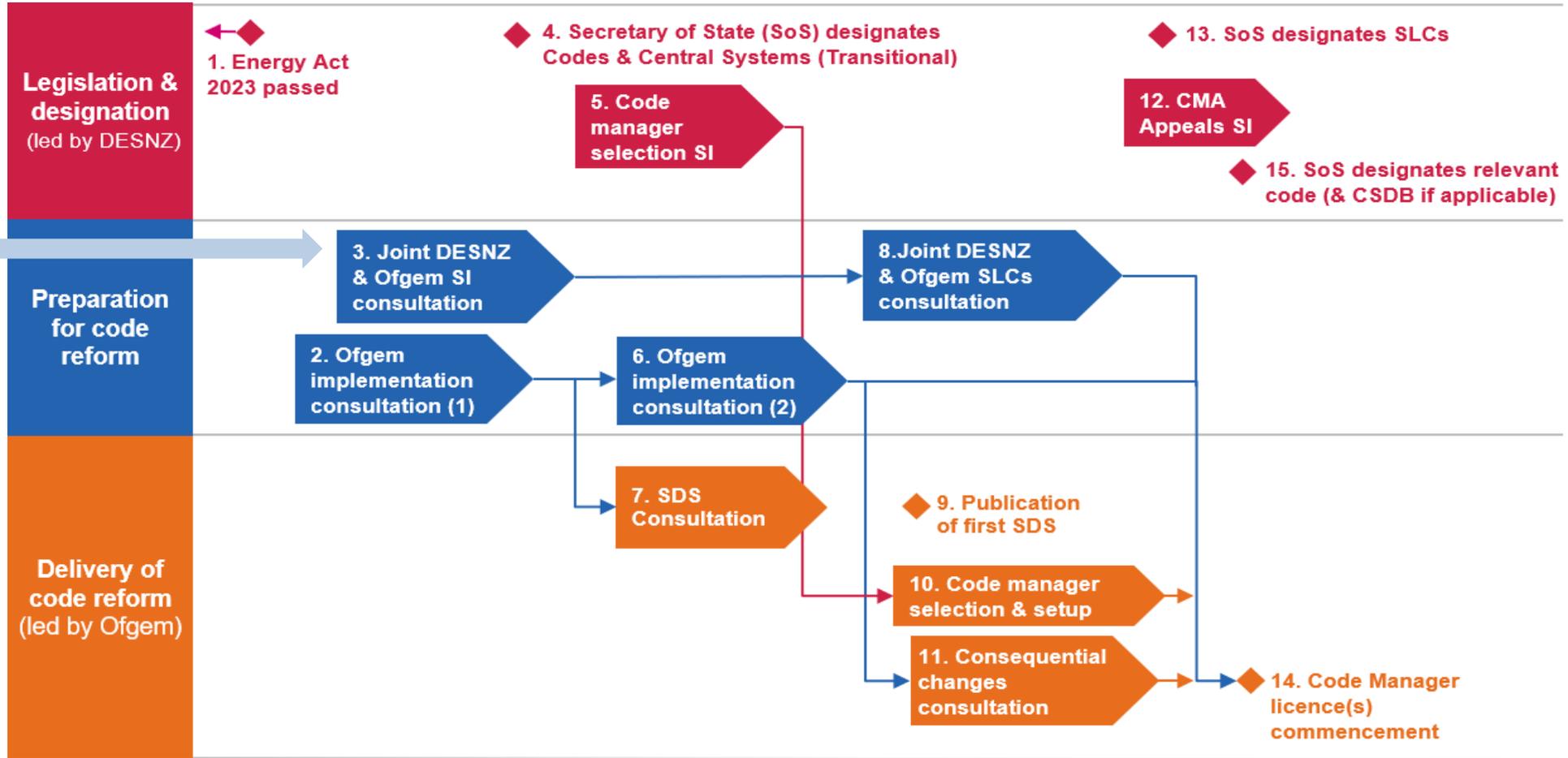
We are proposing potential changes to existing code processes ahead of the first CM appointment, including: i) prioritisation processes; and ii) review of the code objectives. We will develop an updated code modification processes, to be implemented when CMs are appointed, with the help of an expert workgroup.

DESNZ/Ofgem consultation will be published shortly:

- Code manager standard licence conditions
- Code manager selection regulations

Upcoming Engagement:

- March to April** – code panels
- March 26th**
- Webinar
- May** – Mod Process Workgroup begins



Q&A:

- Designation
- Code consolidation
- Transition
- Stakeholder Advisory Forums
- Strategic direction
- Code modification processes

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Appendices



Key messages

- The Energy Act 2023 provides Ofgem with transitional powers for seven years from the date of Royal Assent, enabling Ofgem to modify licences and codes; modify or terminate contracts; direct persons to provide information; make transfer schemes; make regulations related to pensions; and, if applicable, make compensation arrangements.
- To use these powers, codes and systems must first be designated for this purpose by the Secretary of State, following a recommendation from Ofgem.
- Our proposed recommendations are in line with the decisions set out in the April 2022 government response, but we are consulting again to meet the statutory requirement in the Act.

Codes

- 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 Transporter Uniform Network Code (**IGT UNC**)
- Smart Energy Code (**SEC**)
- Retail Energy Code (**REC**)

Central systems

- systems underpinning the **gas industry arrangements**, currently undertaken by Xoserve;
- systems underpinning the **electricity industry balancing and settlement arrangements**, currently undertaken by Elexon;
- the rules and requirements for service delivery for **smart metering**, currently operated by Smart DCC;
- the **Data Transfer Service (DTS)**, currently operated by Electralink;
- the **Central Switching Service (CSS)**, currently operated by Smart DCC.

Key messages

- We believe that code consolidation would support the effective implementation of the new code governance framework in two ways:
 - by addressing long-standing issues with fragmentation and complexity; and
 - by streamlining governance arrangements prior to the appointment of licensed code managers.
- We are proposing to limit the scope of any Ofgem-led consolidation exercise during the transitional period, with code managers expected to be tasked with exploring opportunities for further rationalisation and simplification once in place.
- We are consulting on a draft impact assessment and preferred consolidation options. None of these options include proposals to consolidate the BSC, REC or SEC.

Proposed consolidation options

Electricity:

Electricity Commercial Code (ECC)
(CUSC & DCUSA)

Electricity Technical Code (ETC)
(Grid Code, STC, SQSS & Distribution Code)

Gas:

Unified Gas Network Code (UGNC)
(UNC & IGTUNC)

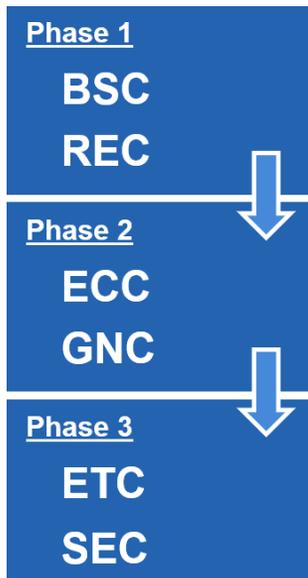
Rationalising code provisions for effective governance:

- 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

Key messages

- Transition can start once secondary legislation and licence conditions are in place (estimated by end 2025).
- The transition process is likely to be more complex for some code than others and will involve statutory processes.
- Our aim is to deliver the transition to the new governance regime as quickly and effectively as possible, whilst minimising disruption to ongoing code work.
- We have proposed a phased approach and are consulting on an indicative sequence (subject to code consolidation).

Indicative phasing



Transition sequencing

- We propose to consider strategic and operational factors to inform prioritisation and timing:
 - Strategic considerations
 - How sequencing might support delivery of Ofgem and government policy priorities
 - How sequencing might impact the delivery of significant code changes
 - Operational considerations
 - How we can deliver code reform as quickly as possible, whilst minimising disruption to ongoing code work
 - Resource demands on relevant parties; time and complexity of any code consolidation process; code manager selection and set-up; any constraints posed by current governance arrangements; etc.

Key messages

- The role of industry participants will remain a vital and central element of industry code governance
- We want to retain what works well with existing Panels and Committees
- SAF will have a strong influence to inform decisions/recommendations on code change
- We're consulting on the high-level approach – detailed arrangements to be developed

Option 1: An open forum

Wider membership and flexible attendance...but risks inconsistency, domination of larger parties.

Option 2: Constituency-based representation

Institutional memory and consistency, with a clear view of different stakeholder viewpoints....but views by party-type could be identified via consultations, views of constituents may not always be accurately represented, and challenging for SAF members to resource their participation.

Preferred Option 3: A fixed, impartial membership

Code party representatives required to act impartially, plus paid independent members, supplemented by a pool of members joining when needed.

Allows the perspectives of constituencies to be reflected while the combination of impartial party representatives and independent members should deliver a valuable and respected source of advice.

This option would be best able to:

- establish a collaborative approach to debating and advising on modifications, with the aim of balancing views from a range of interests
- allow for better institutional memory, expertise and consistent representation
- facilitate a wide range of stakeholders engaged through the 'pool' of members.

Key messages

- We think the best approach is to implement the Strategic Direction Statement (SDS) quickly, and for it to cover all codes from the outset
- An early SDS will enable a smoother transition to the new governance model, allowing code managers to address strategic priorities from 'day 1' following appointment, allow industry to begin addressing SDS under existing governance, and enable Ofgem to develop this new role
- Until code managers are in place, the progression of SDS-related code modifications will be encouraged through existing processes
- We propose to work closely with stakeholders to develop a draft SDS during 2024

SDS Process

Development phase

- Research & understanding
- Assessment & drafting
- Consultation

Implementation phase

- Code manager delivery plans
- Reporting and monitoring
- Evaluation

Role of stakeholders

- The Stakeholder Advisory Forum will play a key role in supporting delivery of the SDS, there will also be a wider role for industry participants supporting development and implementation of code manager delivery plans.
- We propose to add a principles-based standard condition to all gas and electricity licences to require them to support development and delivery of code mods related to the SDS where reasonably requested.

SDS Content

- Focus on 1-2 years ahead, although up to 5-years ahead could be covered in some policy areas.
- Broad range of direction, including i) identify an issue that requires action and allow industry/code managers to decide how best to respond, and ii) prescriptive outcomes we expect to be achieved.

Key messages

- We are proposing potential changes to existing code processes ahead of the first code manager appointment, to support the transition to the new governance arrangements: i) prioritisation processes, and ii) review of the code objectives
- We will develop an updated code modification processes, to be implemented when code managers are appointed, with the help of an expert workgroup
- As far as possible we intend for the new code modification processes to be aligned across all codes

Code objectives

Proposal to align code objectives - we think this could help simplify and improve how code modification proposals are raised and assessed, particularly where there are cross-code impacts.

We are also considering a potential net zero code objective -

Option 1 – update and republish existing guidance on assessing GHG emissions.

Option 2 – introduce a code objective to support the delivery of the net zero target for 2050 and five-year carbon budgets.

Modification processes, inc. prioritisation

We are establishing a workgroup, chaired by us, made up of experts in the modification processes.

We will assess current arrangements and develop the detailed proposals for an updated process, including the SAF.

This workgroup will help us explore the development of a standard prioritisation criteria and processes across codes. We are proposing to implement this into all codes now, to facilitate a smoother transition for incoming code managers, and support delivery of SDS priorities.

Please email us by **Monday 4th March** at industrycodes@ofgem.gov.uk if you would like to join.

Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**