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Dear Industry Codes team

Energy Code Reform: Call for Input

1. We welcome Ofgem's Call for Input on Energy Code Reform and express our support for the new functions and strategic role for Ofgem. We support the initial preference expressed in the Call for Input for exploring a 'vertical' approach to industry code consolidation however we also believe there are significant opportunities to rationalise the codes under existing structures. Reform of the codes presents a unique opportunity to drive forward decarbonisation of the energy sector with a renewed focus, impetus, and urgency. The codes play a pivotal role in setting out the practicalities of how industry will deliver a secure, net zero system at lowest cost to consumers. We anticipate that successful reform would enable code changes to progress with improved cross-code strategic alignment, effective prioritisation, and more expedient delivery. These changes would be to the benefit of all consumers as we continue to drive efficiencies in electricity distribution and work to enable a high-growth, low carbon economy.
2. As we progress to a net zero electricity system, this will involve drastically enhancing and expanding our electricity distribution networks. It is critical that the codes can adapt with flexibility to keep pace with an unprecedented rate and scale of change. We anticipate that the next decade will see mass electrification of energy consumption, at-scale connection of new sources of renewable generation, and the continued implementation of new and innovative approaches to network planning and operation. The code reform programme must therefore recognise the unique perspective that electricity distributors can contribute given our critical role within the sector, in line with our ongoing commitment to ensuring that industry codes are fit to deliver on this unprecedented challenge.
3. The codes are pivotal tools that are deeply embedded in the legal structure of the industry, outlining the technical standards and commercial processes for how we plan and operate our networks in practice from day-to-day. They also have a key role in ensuring a consistent quality of service for electricity customers across GB. The codes are, in essence, the industry 'rulebook' that governs the detailed requirements for the delivery of a safe, reliable, and efficient distribution system. This includes the technical and commercial requirements and processes that must be followed to achieve these outcomes (which apply to the network companies, our

customers, and wider industry). They are critical to informing how we go about our day-to-day operations in a way that meets the needs and expectations our customers and the regulator, including our obligations as an electricity distribution licence holder. It is therefore crucial that these reforms fully recognise the legal importance of the codes within the structure of the industry, and that any changes do not undermine our ability and authority to make decisions about the safe, effective, and compliant management of our networks and broader electricity distribution business.

4. We broadly support the objectives of the codes reform programme and the framework that has been set out. We are encouraged that Ofgem understands the significance of this undertaking that will require realistic delivery timescales and an ongoing contribution from subject matter experts across the sector, noting from the Energy Security Bill that the programme will be in place for up to seven years. Given this timeline, we also cannot afford to allow industry activity to stall or stagnate whilst reform proposals are under consideration. Any changes must recognise that there are already numerous critical industry change initiatives underway, including areas of the codes under Significant Code Review (notably the Market-wide Half Hourly Settlement programme and ongoing changes to electricity network access and charging arrangements). These programmes have already experienced significant delays and continue to draw on inherently limited skills and expertise within the sector.
5. We strongly encourage Ofgem to consider how the proposed code reforms can be prioritised and delivered in a manner that does not negatively impact the delivery of in-flight key strategic change programmes. Consideration should also be given to how the delivery of these programmes may impact the ability of industry to fully engage in these key areas of the codes – particularly within the first two years of the review. Ofgem could clearly identify these areas of the codes from the outset and outline how the timetable for reform will ensure that changes to governance or wider policy questions do not unduly disrupt delivery.
6. The consolidation of codes presents an opportunity to streamline industry practices and improve accessibility for a more diverse group set of stakeholders. The current arrangements place significant bureaucratic overheads on industry participants, and it is widely recognised that this creates a barrier to entry – particularly for newer or smaller players. This includes challenges associated with both engaging in the differences in code governance arrangements, and the complexities of differing structures and language in the codes themselves. We think it is important, however, not to set out to consolidate codes as an isolated objective without a clear and compelling rationale. Forcibly combining codes that are not naturally compatible may result in the opposite effect, and risks increasing complexity and barriers to entry whilst drawing on a limited pool of industry resource and subject matter experts to engage on those changes (at a critical time for the future of our energy systems).
7. We support an approach that focusses on achieving a rationalisation of the existing codes, rather than focusing on consolidation *per se*. Whilst we support Ofgem's initial preference for 'vertical' consolidation, there is also significant scope for this process of rationalisation within the existing code structures. Ofgem may wish to consider whether an initial phase that helps to streamline each individual code may be a helpful pragmatic step prior to considering further consolidation. This could help to simplify and improve consistency in an initial phase, and/or this could be specific objective of a later post-consolidation phase – ensuring that pre-existing codes are not simply 'stitched together' under combined governance, which may not address more fundamental issues.

8. We think that Ofgem should be conscious of the fact that many of the codes in use today are already the product of previous attempts to amalgamate preceding arrangements. Many of the complexities can be traced back to the original differences in predecessor arrangements that were inherited through this process, yet have never been fully aligned or rationalised. For example, codes that contain multiple sections with their own bespoke sets of definitions, which can lead to the same terms meaning different things within a single code.
9. Over time, the codes have grown in length and complexity – in part due to the very model of open governance itself through which change proposals are put forward and developed. This has provided enormous benefits in terms of opening access and influence up to a wider range of smaller industry parties, and it has helped to ensure that codified arrangements keep pace with the rapidly changing technical and commercial landscape. However, a downside has been a natural fragmentation of the codes and a growth in complexity over time. This is, in part, driven by individual parties (or groups) with focused commercial interests that have sought to represent those interests through increasingly granular changes. An additional consequence is that well-intentioned strategic changes (such as those driven by Ofgem under SCR) have sometimes proved to be very challenging to deliver in practice, often becoming bogged down in very specific and detailed issues at the stage of code implementation. These sorts of challenges typically relate to granular definitions or highly detailed areas of the codes, which can be a blocker to delivery of strategic change.
10. Given this (sometimes necessary) complexity, it is important that any consolidation recognises that a simple combining of the codes without a more involved process of rationalisation and streamlining risks exacerbating complexity rather than reducing it. Some existing codes total over a thousand pages, and simply combining them (and their governance) with other codes is unlikely to realise the objectives of reform. Even within the current governance structures, there remains significant scope for an exercise in simplification of the codes – ensuring they are more internally consistent whilst balancing efforts to make them more accessible with their role as a practical instrument for delivery linked to licence and legal obligations.
11. Our experience is that active Ofgem participation in working groups has been very valuable, and it has helped to keep developing code changes well-aligned with a direction likely to be approved by the Authority. We note that this level of participation has waned in recent years, and we would not wish for Ofgem's more strategic role in the delivery of codes change to further detract from valuable continuous engagement.
12. A firm and clearly articulated strategic direction from the outset, accompanied by continuous engagement from Ofgem and the code managers throughout the code change processes, would help to address these issues we have outlined and ensure continued strategic alignment. This should include creating specific provisions against creating regulatory distortions and avoiding opportunities for free-riding, with specific obligations on the code managers to close existing loopholes and free-riding opportunities. This is critical to ensuring that all customers are protected from unfair treatment.
13. Finally, it is important that the codes are not considered in isolation. They must be viewed in the context of what Ofgem and BEIS want to achieve from the energy sector overall, including a clear view on roles and accountabilities. This includes a clarity of thinking and communication of what costs should be socialised, and

how universal service obligations should be fairly delivered and paid for. A consistent framework does not exist for these issues of critical societal importance at the moment, and existing arrangements are not sufficiently coherent. We encourage Ofgem and BEIS to use this opportunity to clearly communicate on these issues to ensure that industry delivers a just transition to a low carbon economy.

14. Our specific responses to each of the call for input questions are set out below.

Response to Ofgem Questions

Q1: Do you agree with the design principles proposed to frame our assessment of code consolidation options? If 'no', please explain why.

- We generally agree with the design principles that have been set out. There is established consensus in industry that the codes have continued to increase in complexity in recent years and they are not sufficiently accessible for many of our customers and stakeholders. Our experience is consistent with this, and we find that even generally well-informed market participants can often struggle to understand and engage with the rules that affect them.
- We think it would be prudent to recognise that some of the industry codes are currently involved in major industry change programmes – notably Market-wide Half Hourly Settlement – and that further fundamental changes to the codes that affect these programmes whilst they are underway could result in further delays or disruption.
- It is important that the framework for code change considers that there must be a clear view on roles and accountabilities, in alignment with what BEIS and Ofgem want from the sector overall. The current arrangements are often unclear, which can lead to challenges in the delivery of strategic change.

Q2: What are your views on the high-level options for code consolidation we have described ('no consolidation', 'vertical' & 'horizontal')? We welcome input on the possible benefits/disbenefits of each option.

- We do not think that an option of “no change” at all is a realistic proposal, as it would fail to deliver on some of the key objectives that have been set out in legislation and that have been outlined by Ofgem.
- We generally support further exploration of options for “vertical consolidation” (i.e. within the electricity vector), however, we believe that there could be substantial benefits to focussing on a rationalisation of existing arrangements. This would involve simplifying them where possible to aid accessibility, without undermining clarity and necessary practical utility. As this will involve compromise and trade-offs in practice, we suggest that principles are established to aid this process. This would help to ensure change can be delivered in a reasonable timeframe whilst avoiding unnecessary debate.

- As outlined in our narrative response, we do think there is significant scope to rationalise arrangements even within the existing code structures. A focus on ensuring that arrangements are rationalised to improve both within and cross code consistency and simplicity (where this does not undermine practical utility) should be a key objective regardless of the reform option pursued.
- We do not support the options for “horizontal consolidation” (i.e. across electricity and gas codes). There are fundamental differences between the technical and commercial electricity and gas codes for valid technical and commercial reasons. We believe that a forced horizontal consolidation could, in fact, be to the detriment of whole system thinking, as it may not sufficiently recognise the reasons for differences in technical and commercial arrangements.
- This could reduce the flexibility and adaptability of the codes as electricity and gas systems change at different rates and in different ways. It risks adding further complexity and additional challenges in stakeholder engagement with the development of the codes, particularly as many stakeholders may only have an interest in a single energy vector. We believe that most of the dual-fuel efficiencies to be realised are already inherent in the REC and the SEC, which provide a good foundation for further dual-fuel commonality in their respective areas where there are additional benefits.
- The call for input specifically refers to the potential for a ‘dual-fuel charging code’ that could set out the network charging arrangements for both gas and electricity systems. We do not support this proposal. This is an example of where dual-fuelling risks failing to recognise that there are fundamental reasons for why electricity and gas arrangements differ. In this case, in both their strategic intent and detailed methodologies which reflect the different trajectories expected for these energy vectors.
- Where investment in electricity network infrastructure is expected to grow rapidly with increased demand for capacity, gas network infrastructure is not experiencing this same rapid growth. This has resulted in different choices being made by Ofgem and industry in how the costs of connecting to and using those systems should be apportioned, and how broadly those costs should be socialised across the user base. Whilst there are inconsistencies in these choices (in lieu of a clear framework, as referenced elsewhere) there may be good reasons to consider electricity and gas arrangements differently. For example:
 - Electricity network charges involve a form of ‘shallow’ connection charge (a low up-front financial barrier to system access). This can support widescale, rapid electrification. More of the upfront costs are recovered over time, through use of system charges, which are more broadly socialised across the user base. In an expanding system, there seems to be a stronger case for a future shared societal benefit from additional infrastructure investment. These reforms, actively driven by Ofgem under SCR, are fundamentally divergent from gas charging arrangements.
 - In contrast, gas network charges involve a form of ‘deeper’ connection charge (a larger portion of new investment being paid for up-front by the party who triggers it). This is arguably more appropriate for a system which is not experiencing rapid growth, where it seems more reasonable

that those who require new infrastructure to be built should bear more of the cost (as there is less of a case for broader societal benefit and socialisation over time through use of system charges).

- This is just one instance of where electricity and gas codes may seem apparently similar in purpose or concept, but have differences in practice for well-considered reasons. It remains unclear what benefits would be achieved by bringing these into a single code that could not be realised through a clear cross-code framework for how costs should be allocated (and the extent to which they should be socialised). Consolidating codes across fuels is likely to add complexity and present challenges in stakeholder engagement, particularly those who are interested in a particular energy vector only (including with the subject matter experts who most closely inform codes development).
- We concede that there may be some cross-vector synergies (for example, consistency in areas such as payment terms, certain commercial arrangements, customer contact details, site references etc), however, many of the areas of dual-fuel commonality have already been consolidated within the REC and the SEC.

Q3: Do you agree with our initial preference to explore vertical code consolidation options and, if so, do you have any observations on the potential models set out in Cornwall Insight's April 2022 report?

- We agree with the initial preference Ofgem has expressed to explore vertical code consolidation options, as above. Our view is that the consolidation of distribution codes (i.e. the DCUSA and DCode) and transmission codes (i.e. the CUSC and Grid Code) merits further exploration, rather than seeking to combine transmission and distribution arrangements. As above, there are opportunities to realise benefits from rationalising the codes even under current arrangements.
- Whilst consolidating aspects of transmission and distribution may appear conceptually attractive at a surface-level (i.e. from a whole electricity system perspective), in practice there are very valid reasons for separate codification, and significant differences in the structure, content, and governance arrangements across distribution and transmission. We think that the differences apparent in both the technical and commercial codes are likely to significantly impede consolidation efforts and may render reform infeasible.
- We do not think that codes reform should aim to resolve all policy discontinuities across transmission and distribution, which may necessarily have to be addressed to realise this model. Any reform efforts in this direction would quickly become bogged down trying to resolve these policy questions rather than focussing on more readily achievable benefits associated with streamlining and rationalising in broad alignment with existing code distinctions. As demonstrated in recent Significant Code Reviews, even very specific policy issues across transmission and distribution (such as connection and charging arrangements) can result in major multi-year programmes to assess and deliver change. It is critical that the objectives of code reform remain realistic and achievable if they are to happen in a timely manner.

- Given we think there is merit in further exploration of consolidation of the DCUSA and the DCode into a single electricity distribution code, this could conceivably also be explored in transmission arrangements (consolidation of the CUSC and the Grid Code) to form a combined electricity transmission code.
- Whilst it could be reasonable to consider consolidating the REC and the SEC in the longer term, we do not think this should be a priority when there are comparatively fewer benefits. The REC is still relatively new, having only recently been established, and as part of that process other of aspect of the codes (such as the MRA) have already been absorbed into the REC.
- We believe that layering additional change on top of these recent changes – particularly as these codes are key to market-wide half hourly settlement – risks adding to existing issues relating to timely delivery of REC change proposals as recently established arrangements continue to bed in.
- The RECCo have now published their strategy and forward plan to 2026. They have set out a full programme of initiatives to benefit industry and consumers. It is already recognised that improvements are needed to the REC change processes to drive the code changes that industry needs. Absorption of the SEC in addition to this programme of activity seems likely to come at the cost of other deliverables.

Q4: Do you agree with our preferred implementation approach (Option 2)?

- We agree that Option 2 (i.e. common contractual framework and governance arrangements) could be a reasonable and readily achievable route to the implementation of reform. In line with the comments provided in our general response, we believe it is important that simplification and rationalisation of the content of the codes themselves is achieved as a priority. Bringing governance in line with this priority would seem to be the right way to implement the proposed changes.

Q5: Are any of the contents we have identified for the licence conditions unnecessary, or, would be more effectively covered outside of the licence (eg in the codes)?

- We believe that the code manager licence contents that have been identified would be reasonable to include in licence conditions, and that any additional details could be included in the relevant code.

Q6: Are there any additional areas that should be subject to licence rules?

- In line with our comments elsewhere, we believe that there should be explicit provisions in the arrangements against creating regulatory distortions and to avoid opportunities for free-riding. This should include specific obligations on the code managers to close existing loopholes and free-riding opportunities. This is critical to ensure that all customers receive fair treatment.
- It additionally seems important that code managers should have obligations with respect to establishing and maintaining an effective code modification process and timescales given this is a core function.

Q7: Do you agree with our indicative prioritisation for policy development, and do you identify any specific dependencies that you think we should factor into our policy considerations?

- There is a strong argument that exploration of opportunities to consolidate electricity distribution arrangements should come at a later date, and that opportunities relating to gas arrangements and/or transmission could come sooner. Distribution arrangements are currently in the middle of two Significant Code Reviews that will have a major impact (the Access/DUoS SCR and MHHS SCR). The potential benefits of combining the REC and SEC are of comparatively lower value and could come later.

Q8: Are there any issues that we should take into account when considering moving the current 'code owner' licence provisions to the new code manager licence (such as unintended consequences)?

- The code managers must have relevant expertise in the subject of the code (e.g. technical or commercial specialisms). They should be considered based on their ability to resource and deliver a quality of service that will meet stakeholder expectations, and appropriately monitored to ensure that they continue to do so.
- Any existing disputes or outstanding code breaches (e.g. debt) and rules for transfer of credit cover provisions will have to be managed effectively and not place existing code parties at any additional risk.

Q9: What do you think the stakeholder advisory forums' key roles and/or functions should be, and what areas (other than code change) should the forum(s) potentially have a role in?

- It is important that any stakeholder advisory forum has the ability to provide advice pertinent to the code as well as support the code manager in assessing modifications without prejudice. It should be considered whether existing licenced parties could hold specific duties or rights in these fora, given our historical and ongoing commitments to supporting codes changes and our regulated status, which ensures that our input remains more impartial than other commercial parties.

Q10: What options/issues should be considered in terms of constituting the stakeholder advisory forum(s), in terms of membership and securing appropriate representation?

- Given the nature of the regulatory framework in place for network licence holders, we are significantly less exposed to the commercial code interests that are likely influence input from other parties, and we would be more able to provide more impartial contributions and technical input to the benefit of coherent codes development.

Q10: What options/issues should be considered in terms of constituting the stakeholder advisory forum(s), in terms of membership and securing appropriate representation?

- The membership of the stakeholder advisory fora should require that any stakeholders are suitably engaged with the energy networks industry before being accepted.

- It is essential that energy networks continue to be involved in the discussion of codes changes, as these should not undermine our ability and authority to make decisions about the safe, effective, and compliant management of our networks and broader electricity distribution business.

Q11: Are there any lessons learnt (either good or bad) from the current code arrangements that should be considered?

- It is critical that the codes are not developed in isolation, as they must be considered in the context of what BEIS and Ofgem want from the sector and the electricity market overall, including a clear view on roles and accountabilities, clear thinking on what costs should be socialised (and how), and how universal service obligations are fairly delivered and paid for.
- The stakeholder advisory forums must therefore be set up with a very clear purpose and strategy that connects to these higher order strategic objectives, which must be clearly communicated. It is important that the direction of developments under discussion within the stakeholder advisory forum are not unduly influenced by commercial interests specific to a particular group, and that they continue to remain aligned with a clear strategic direction and set of priorities.

I hope you find this input from SSEN Distribution informative. I would be happy to follow up on any of the comments we have provided, and we look forward to hearing more on the next steps for Energy Code Reform.

Yours sincerely

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Scottish and Southern Electricity Networks - Distribution