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Ofgem Industry Code and Licensing Team  
**Office of Gas and Electricity Markets**

By email to: [industrycodes@ofgem.gov.uk](mailto:industrycodes@ofgem.gov.uk)

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**Consultation on Energy Code Governance Reform**

SGN welcomes the opportunity to respond to the above consultation<sup>1</sup>. As a Gas Distribution Network (GDN) our responses are focused around our experience with the relevant gas industry codes – specifically Uniform Network Code (UNC) and the IGT Uniform Network Code, although we have provided wider observations where we are able.

We note that the Energy Code Governance Reform consultation questions are looking for direction on impacted parties' preferences. As such, we have responded to the questions posed within Ofgem's Call for Input in this letter and in the template attached for ease of consumption.

Should you require any further information with regards to our response then please do not hesitate to contact me at [Sally.Hardman@SGN.co.uk](mailto:Sally.Hardman@SGN.co.uk)

Yours sincerely,

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SGN

<sup>1</sup> <https://www.ofgem.gov.uk/publications/energy-code-governance-reform>

## Code Consolidation

Question 1: Do you agree with the design principles proposed to frame our assessment of code consolidation options? If 'no', please explain why.

We agree with the design principles.

Question 2: 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.

### No consolidation

We do not support 'no consolidation' as an end state as we consider a no-action approach would not facilitate the design principles and would result in missed opportunities - for example, we would encourage consolidation of UNC and IGTUNC. However, we agree with the process for no consolidation listed in the assessment table that it would enable the implementation of Code Managers to take place more quickly, and as such we consider that this option could serve very well as a transitional step. From a timing perspective we would support Code Managers being in place before any consolidation takes part as it would be logical and efficient for the consolidation process to be managed by the Code Manager, who can then also facilitate many of the proposed smaller reforms (simplification of text, introduction of common objectives etc) as part of a wider package.

### Vertical

SGN would support a degree of vertical consolidation. Moving towards fewer fuel-specific codes would deliver the design principles but avoid the excessive complexity created by horizontal implementation. Vertical implementation would ensure a degree of accessibility as all fuel-specific codes could be found in the same place without needing to distil the details relating to one fuel from the other (which would be a risk with full dual-fuel consolidation where there is little commonality between processes). Careful consideration of which codes to consolidate will be required as even within a single fuel, consolidating too many dis-similar codes may increase, rather than reduce, complexity.

### Horizontal

We do not support horizontal consolidation. While there are precedents for horizontal consolidation (such as SEC and REC) these have been made possible due to a specific level of commonality between the electricity and gas codes at the point of design – for example because these codes are focussed on Retail or Smart Metering, for which there is a high degree of consistency within the processes). Wider consolidation between electricity and gas would not be effective as the divergence of processes would result in significant sections of each fuel-specific code needing to be preserved almost in their entirety, and as such there is a significant risk that horizontal consolidation would result in a very long document with little common application. Horizontal consolidation on this scale is likely to also compromise accessibility, as the fragmentation of existing single codes across horizontal consolidation would result in code users with an interest in only one fuel or a specific area needing to navigate a multi-fuel code in order to distil the information relevant to their interest, and many organisations will not be able to build sufficient knowledge or resources to develop the code expertise likely required, thus disengaging them from the governance processes.

Question 3: 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 welcome specific views on the following:

- Whether the UNC and IGTUNC should be consolidated;
- If/how to consolidate the electricity codes;
- Whether the REC and SEC should remain separate; and/or
- Whether the consolidation of any codes should be prioritised, and if so, why.

We support the preference for vertical consolidation.

We also support the consolidation of UNC and IGTUNC although note that would need to be subject to the appropriate funding mechanisms being in place. In terms of timing, it would also be sensible if consolidation were to take place as a Code Manager led activity. While we support IGT/UNC consolidation, this is on the assumption that appropriate consideration is given to Code Ownership, and Standard Special Conditions A11 and A12 of the Gas Transporters' licence, which cover UNC and Joint Office respectively. We note that this is further discussed on page 19 of the Ofgem Call for Input.

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

- If so, do you have any additional observations on what we should consider when further developing this approach, including which code provisions should be considered within the scope of governance arrangements?
- If not, please provide details.

As an initial view we would support Option 2 as set out in Ofgem's Call for Input document, however a greater level of detail is required. For example, we assume that, in keeping with the preference for vertical integration, UNC and IGT UNC would be consolidated to share a single framework and governance arrangements, which we would support, however it is unclear whether these arrangements would also be common across other codes with which IGT/UNC is not consolidated. While a common framework would not be advantageous outside of vertically consolidated codes, there may be benefits to more aligned governance processes, however this needs more detailed review.

As discussed in our response to Question 2, we consider that consolidation, plus any other code reform opportunities, should be delivered by the Code Manager once they are in place.

### Code Manager Licencing

Question 5: Are any of the contents we have identified for the licence conditions unnecessary, or, would be more effectively covered outside of the licence (e.g. in the codes)?

The suggested licence conditions appear appropriate at this stage. We note that there is likely to be a degree of duplication between the licence and code - for example dispute resolution is a proposed licence condition but also appears in the UNC - and given that the Code Manager is expected to be party to the code, it may be worth considering whether such obligations should be held in either the code or licence, rather than both.

It should also be considered whether certain functions should remain reserved for licence and should not be held in the code - for example matters relating to funding may be more appropriately held in the licence as this would provide parties with more confidence and stability, as the provisions could not easily be changed through an industry modification.

**Question 6: Are there any additional areas that should be subject to licence rules?**

Not at present.

**Question 7: 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?**

We agree in principle, however, it is important to recognise that need to make adjustments to and the removal of obligations that currently exist under the existing transporter licence and to ensure that networks are not left with obligations that they are no longer able to manage or control as a consequence of the Code Manager being created.

**Question 8: 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)?**

We agree that part of the Code Manager licencing should include appropriate obligations to maintain the code and its supporting governance processes, and that the holding of equivalent licence conditions currently held by Code Owners should be evaluated. However this will need careful consideration as, in the case of UNC for example, the code is network-owned and materially impacts the safe and reliable operation of our networks, in addition to our transportation invoicing and funding. As such, it is important that Code Owners retain the appropriate level of influence over the code and that other activities defined in licence or alternative legislation (such as maintaining safety standards) are not compromised.

Our expectation would be for any existing Code Administrators to be utilised within the Code Managers function as this would provide continuity of the code subject matter expert.

### **Stakeholder Advisory Forum**

**Question 9: 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?**

There is a careful balance to be met by the Stakeholder Advisory Forums (SAF), in that the Forum should be open to all relevant stakeholder groups and not limited, but in a controlled manner to ensure equal representation of different stakeholder groups. The SAF could act as a check and balance to guide the Code Manager who would be expected to do the majority of the change development while acknowledging that it may not have the necessary in-depth expert knowledge on every subject, or may not be able to adequately identify and consider impacts from every angle.

The SAF could support on non-change matters such as code compliance and performance assurance, although both may ultimately sit with the Code Manager.



A strong disputes process will be required and Ofgem should continue to make available the ability for industry parties to appeal via CMA or Judicial Review.

Question 10: What options/issues should be considered in terms of constituting the stakeholder advisory forum(s), in terms of membership and securing appropriate representation?

As discussed in our response to Question 8, consideration should be given to the impact of lessening current Code Owners' control over contractual frameworks which directly impact the financial and operational running of their networks, and therefore the influence of the SAF and Code Manager must be proportionate.

Question 11: Are there any lessons learnt (either good or bad) from the current code arrangements that should be considered?

We would expect that a lessons learnt review would be a principal step once the Code Manager is appointed.