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To whom it may concern,

Energy Code Reform: Call for input

Thank you for the opportunity to respond to the Ofgem consultation: '*Energy Code Reform: Call for input*'. This response is made on behalf of Cadent and can be published by Ofgem. Our responses to the individual consultation questions are set out in the attached continuation sheet. Below we have highlighted a few key issues.

Cadent is supportive of the proposal for reform to better facilitate the strategic changes required to transition to a cleaner energy system, whilst unlocking innovation and significant benefits to consumers.

The scale of change required in gas, to decarbonise heat and transition towards the use of hydrogen, is unprecedented, and Ofgem and BEIS will be aware we have been a strong advocate of managing change within a strategic context. The pace, complexity and diversity of change is likely to continue. Whilst not explicit, the consultation is covering existing industry codes, and does not address the creation of new codes. There is a high degree of likelihood that a new hydrogen code will be required at some point, whether for industrial clusters or wider gas network repurposing. Thought must be given to how a new code is created, and the role a code manager would play. For example, would BEIS and Ofgem develop an initial code, which is then handed over to a code manager going forwards, or would the code manager be appointed first to build the new code from the start. We are therefore keen for further engagement with Ofgem and BEIS on the development of a hydrogen code.

In relation to the proposals, we recognise that gas and electricity codes are fundamentally different in many areas, and therefore support keeping code rules relating to gas and electricity separate. We also recognise that there is currently much greater degree of granularity of codes in electricity compared to the Uniform Network Code (UNC) in gas. With the introduction of licensed code managers, the current responsibilities of gas transporters under their licence will need reviewing and amending. We note that the consultation is broadly silent on the detail of funding schemes. Providing appropriate funding for a code manager function is a critical design feature, alongside supporting costs that industry may incur in designing, developing and implementing the new arrangements. Funding provisions and the interaction with existing licence obligations are primary enablers for successful transition and enduring operation.

Please contact me should you wish to discuss any aspect of this consultation response.

Yours sincerely,

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*Calls will be recorded and may be monitored

Continuation sheet:

Questions:

Code Consolidation

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

Yes, we support the design principles proposed to frame Ofgem's assessment of code consolidation options. The energy code framework should be relatively easy to access and use for market participants, whilst agile and adaptable to future market arrangements.

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 are supportive of vertical consolidation, keeping the core code rules relating to gas and electricity separate. This approach ensures fuel-specific expertise remains focused, recognising that gas and electricity codes are fundamentally different in many areas. It should be noted that the gas sector is already highly consolidated with the single UNC covering the same ground managed by multiple electricity codes.

We do not support horizontal consolidation. As highlighted by Cornwall Insights, this would be too complex to deliver, cause significant disruption to the governance of central systems and cause upheaval for gas by disaggregating the UNC. Concerns around potential cross-fuel issues could be mitigated by the future introduction of a strategic body providing the overarching coordination across electricity and gas. There is also the risk with this approach that with finite resources, one sector has greater attention and prioritisation over a period at the long-term detriment to the less favoured sector.

The role of a code manager is significantly wider than the existing arrangements in gas where the Joint Office of Gas Transporters (The Joint Office) provides an efficient, low-cost code administration service to the gas industry. If no consolidation were to occur, and the responsibility of delivering improvements sitting with a code manager, we strongly believe consideration should be given to utilising and incorporating the skills and experience of existing code entities that support the process. Due to the complexity and industry knowledge that is required in the role, there may only be a small number of organisations able and trusted to undertake the role and existing code administrators, such as The Joint Office, already have the skills and expertise required and can do so with least disruption and speed, and with the confidence of the wider industry.

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 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 strongly support the preference for vertical code consolidation. This would be quicker to deliver than horizontal consolidation, with less disruption to licensees and central systems, and would enable faster delivery of the wider energy code reform package. Dual-fuel codes at a wholesale or networks level would be extremely complex because gas and electricity are fundamentally different, meaning synergies are extremely limited.

We believe the REC and SEC should remain separate. Given the content and focus of each code - the SEC is primarily a technical code focused largely on the smart metering infrastructure, while the REC governs the end-to-end retail activities – as well as the recent work to establish these relatively new codes, there may be limited benefits in consolidating the two at this time. There may also be value in having some horizontal consolidation between the codes closer to the customer relationship, where energy is the end product, and differentiation between electricity and gas is less distinct.

The UNC and the IGT UNC should be consolidated into a single gas code. Code parties have struggled to fully engage with the IGT UNC, leading at times to meetings not being quorate. Therefore, consolidation of the two codes should be prioritised, although, consideration must be given as to how this consolidation is funded. A sustainable, flexible and independent funding route will be required for any new code management function, as it would not be appropriate for the historic funding arrangements through gas transporter allowances to be perpetuated.

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.**

In order to deliver code consolidation as part of the transition to the new code governance arrangements, we agree the preferred implementation approach of option 2: common contractual framework and governance arrangements, is likely to be the most efficient method to deliver implementation. This option would create a single code document (as seen in option 1) but go further by establishing common governance arrangements. We think that separate governance arrangements within a consolidated code could create confusion and therefore bring complexity and inefficiencies.

However, it should be noted for the gas codes that aside from the IGT UNC, codes are already consolidated and in practice an Option 1 approach can be broadly utilised and still deliver the common governance arrangements achieved with an Option 2 approach.

Code Manager Licensing

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)?

It seems appropriate that the contents listed are relevant for inclusion in the code manager licence, with additional detail included as appropriate in the relevant code. Within the content, we would like to see code manager obligations with respect to establishing and maintaining an effective code modification process, including its timescales.

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

The consultation focusses on setting up new arrangements. Included in the prioritisation should be the necessary consequential changes to current licences. A clear roadmap is required on when existing duties are turned off as well as when new duties go live.

Where it is necessary for the code manager to contract for a service with an existing provider, transitional arrangements should be in place from the start to protect staff, skills and knowledge when the transitional arrangements expire.

Funding is anticipated to be via charges levied on the code parties. Exactly how these will flow through to regulated businesses must also be a priority, and if necessary defined in appropriate licence conditions for all impacted Licensees. This includes the scale, notice periods, and the approach to passing the costs through to network customers.

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?

With the introduction of licensed code managers, the current responsibilities of gas transporters under their licence will need reviewing and amending. These include, but are not limited to, Standard Condition 9 (Network Code), Standard Special Condition A11 (Network Code and Uniform Network Code) and Standard Special Condition A12 (Joint Office Governance Arrangements), which will require consequential modification/ deletion.

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)?

There is a risk of key experience and skills being lost under some options for code manager appointment. It is therefore important that any code manager has relevant expertise in the subject of the code. Code managers should be considered on their ability and resource to provide or, if an existing code administrator, to continue to provide a good level of service meeting stakeholder expectations. Key performance indicators should be set to ensure good and efficient service.

If new funding arrangements require recovery of the code manager's activities via a gas transporter, then appropriate licence conditions will be required to define and manage these mechanisms.

Stakeholder Advisory Forum

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?

With the removal of code panels, consulting with stakeholders will carry greater importance due to involving key industry expertise to understand issues, develop options and to challenge and scrutinise decisions and how they are made. The code manager should therefore ensure it consults throughout the code change lifecycle and have a duty in its licence to have due regard to the views expressed by stakeholders. The stakeholder advisory forum should be able to make recommendations on the approval/ rejection of modifications.

The licence and governance must also encourage the right long-term industry behaviours. External stakeholder engagement is vital, however if informed voices do not feel they are allowed to contribute or are being ignored, or if decisions are seen as a black box and influenced non-transparently, the level of engagement will rapidly fall. This would lead to a much lower quality of industry change, with consequential damage to the market.

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 stakeholder advisory forums should be open to all existing stakeholder groups, with no limit on representation. Supporting remote meetings does give greater flexibility in terms of numbers of attendees, and there will be a level of self-regulation as businesses will simply not be able to regularly send multiple representatives.

Mechanisms to allow numbers to be limited if necessary, e.g. for face to face meetings, should be deployed, and a clear requirement to be a direct representative of an organisation that is party to the code. There should be scope for ad-hoc specialist involvement linked to specific areas.

It would not be desirable for full open access as this would open the door for organisations to use the forums for marketing purposes.

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

We would advise that all current code enabling activities undertaken by existing code administrators, and gas transporters in the case of the UNC, should by default be within scope of the code manager duties. This includes the ancillary supporting activities such as the provision of central legal text for code modifications currently undertaken by the gas transporters. The code manager should have the freedom to select the appropriate route to procure the necessary services.

We have seen an increase in the number of Urgent UNC modifications in the past few years. Whilst we acknowledge the need and use of the 'Urgent' status in a unique set of circumstances, modifications that follow this route often fail to be scrutinised in the same detail as non-Urgent modifications. This lack of industry scrutiny can often lead to unintended consequences to central systems and/or market participants. We would therefore welcome a review of the Urgency criteria as the new code governance arrangements are developed.

Industry would also benefit from greater engagement from Ofgem during the development of code modifications. The engagement should help eradicate examples of code modifications being 'sent back' by Ofgem for further development and/or clarity. Greater involvement would also allow Ofgem to hear and understand the issues from an early stage which would support faster and more efficient decision making.