

Consultation

Consultation on the implementation of energy code reform

Publication date: 30 January 2024

Response deadline: 23 April 2024

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We are consulting on our approach to implementing the industry code governance reforms set out in the Energy Act 2023. We would like views from people with an interest in energy code governance. We welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Director Foreword

The passing of the Energy Act 2023 into legislation marks a major transformational step for the energy sector in Great Britain. It sets out measures that will aid the modernisation of the energy system and fundamentally change the way the sector is regulated.

Among these measures is a package of significant reform to the governance of the gas and electricity industry codes. As we look toward the future of the energy system, it is vital that these codes – which contain the detailed rules of participation in the energy markets – can respond to the evolving sector. To help achieve this, the Act introduces a new strategic oversight role for Ofgem, supported by a new licensing regime for code managers who will be responsible for the governance of designated codes.

We welcome our new roles, which will provide a stronger framework for the delivery of code change in the interests of consumers. Our strategic direction will support government priorities and the co-ordination and prioritisation of key strategic changes across the codes. The licensing of code managers will underpin the delivery and implementation of this strategic change.

As part of our approach to implementing the new arrangements, we are proposing to consolidate several of the existing gas and electricity industry codes, simplifying the overall code framework. The Energy Act reforms provide the opportunity to significantly streamline the codes, to ensure the efficient and effective delivery of strategic change moving forward. The code consolidation we are proposing in this consultation will enable code managers to pursue simplification and rationalisation of the code rules, once they are in place. We set out in this consultation our view that a simplified code landscape will in turn better support the growing number of participants within the sector.

The role of industry stakeholders is, and will continue to be, central to the operation and development of the industry codes. We have worked closely with stakeholders to develop our approach to energy code reform to date. Following our previous consultations jointly with the government, the Energy Act 2023 now empowers us to implement the reforms. We want to continue working closely with our stakeholders to help further shape our approach and ensure an effective transition to the new governance framework.

We thank you for your continued engagement and we look forward to hearing your views on this consultation.

Cathryn Scott, Director, Enforcement & Emerging Issues

Executive Summary

Reforming the energy codes framework

The Energy Act 2023¹ (the 'Act') gives new powers and responsibilities to Ofgem, enabling us to implement significant reform to the governance of the energy industry codes. These reforms were set out in the government response to our joint consultation on energy code reform in April 2022.²

Under the new framework, Ofgem will license code managers who will be responsible for code governance. Part of code managers' role will be to ensure that the codes develop in line with a Strategic Direction Statement for designated codes that Ofgem will publish annually. This will set out our vision for how the codes should evolve on an annual basis. Industry stakeholders will retain a vital role in the code processes, with new Stakeholder Advisory Forums formed to guide and inform code managers' decision-making.

These reforms enable us to create an agile, forward-looking governance framework for the codes that will be more responsive to change and better reflect the government's ambition and achievement of net zero. We are consulting on our approach to implementation.

Our proposals

Designation of codes and systems

We propose to recommend to the Secretary of State that eleven codes and five central systems (listed in Section 2) should be designated as 'qualifying documents' and 'qualifying central systems' respectively, for the purposes of using our transitional powers granted under the Act to implement energy code reform.³

Code consolidation

We propose to address the complexity and fragmentation of current governance arrangements by consolidating a number of existing gas and electricity codes, using our transitional powers in the Act. Our preferred approach is to consolidate:

- the Connection and Use of System Code (CUSC) and Distribution Connection and Use of System Agreement (DCUSA) to create a unified electricity commercial code

¹ [Energy Act 2023 Part 6.](#)

² [Government Response to the Consultation on Energy Code Reform.](#)

³ Energy Act 2023 Schedule 12.

- the Security and Quality of Supply Standard (SQSS), the System Operator–Transmission Owner Code (STC), the Grid Code and the Distribution Code to create a unified electricity technical code
- the Uniform Network Code (UNC) and the Independent Gas Transporters Uniform Network Code (IGT UNC) to create a unified gas network code.

To achieve this consolidation, we propose to establish a common contractual framework for each consolidated code and deliver targeted rationalisation and simplification. Further rationalisation and simplification of the consolidated codes' content would be pursued by code managers over the medium- to long-term.

Strategic direction

We propose to put in place Ofgem's Strategic Direction Statement for industry codes from next year. We set out our thinking on how we will deliver this. Setting our strategic direction ahead of code manager appointments will help support industry participants in addressing strategic priorities under existing governance, as well as giving potential code managers an understanding of expectations following their appointment.

Code governance arrangements

We set out our preferred approach for constituting Stakeholder Advisory Forums, who will play a key role in the new governance framework. We will start developing an updated code modification process, to reflect the new roles and responsibilities under the reforms and are seeking volunteers with experience of the existing processes to join a workgroup and help us develop this revised process.⁴ We also set out our intention to review the existing code objectives as part of the code reform implementation process.

Transition approach

We set out our proposal to transition the codes to the new governance framework in phases, starting with two codes which we do not propose to consolidate. We are seeking stakeholder views on this approach, and on which codes should be prioritised.

Upcoming consultation on code manager licensing

Before Ofgem appoints code managers, the Department for Energy Security and Net Zero (DESNZ) will put in place selection regulations and standard licence conditions for code managers. We expect to consult on relevant proposals jointly with DESNZ in Q1 2024.

⁴ A request for expressions of interest to join this workgroup is published as a subsidiary document to this consultation, available at [Energy Code Reform | Ofgem](#).

1. Introduction

- 1.1. The Energy Bill, first introduced to Parliament in July 2022, received Royal Assent on 26 October 2023. The passage of the Energy Act 2023 ('the Act') is a major transformational milestone for the energy sector in Great Britain. It creates a comprehensive new legislative regime for energy production, security, and regulation.
- 1.2. The Act has a wide remit, encompassing several areas of energy policy including reform to the industry code governance arrangements. The industry codes set out the detailed rules of participation in the gas and electricity markets, underpinning market operation.
- 1.3. Energy code reform aims to ensure that the codes can respond to the significantly changing sector, enabling change to be delivered more efficiently and effectively in the interests of consumers, and to support the transition to net zero.⁵ The reforms aim to create a framework that:
 - is forward-looking, informed by and in line with the government's ambition and the path to net zero emissions, and ensure that codes develop in a way that benefits existing and future energy consumers
 - is able to accommodate a large and growing number of market participants and ensure effective compliance
 - is agile and responsive to change whilst able to reflect the commercial interests of different market participants to the extent that this benefits competition and consumers
 - makes it easier for any market participant to identify the rules that apply to them and understand what they mean, so that new and existing industry parties can innovate to the benefit of energy consumers.
- 1.4. The reforms extend Ofgem's regulatory remit by setting out new powers and obligations.⁶ These include:
 - issuing an annual Strategic Direction Statement (SDS) for codes, setting out our vision for how the codes should evolve, in line with our assessment of

⁵ The benefits case for energy code reform is set out in the 2022 government final impact assessment, published alongside the government response to our 2021 joint consultation: [Energy code reform: governance framework - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/energy-code-reform-governance-framework).

⁶ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority (GEMA). The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

government policies and developments relating to the energy sector that we consider will or may require modifications to designated codes

- the ability to select and license code managers, who will be responsible for governance of the codes. Code managers will be empowered to create and implement delivery plans in line with Ofgem’s annual SDS, and will be independent of commercial interests in the sector⁷
- directing Central System Delivery Bodies (CDSBs)⁸ for the purpose of ensuring compliance with, or the efficient operation or implementation of, a relevant code
- making changes directly to the industry codes, in prescribed circumstances set out in the Act.⁹

1.5. Energy code reform is a joint project between the government and Ofgem. The Department for Energy Security and Net Zero (DESNZ) is responsible for establishing the regulatory framework for code managers, and we will consult jointly with DESNZ shortly on code manager selection regulations (secondary legislation) and standard licence conditions for code managers (which will be designated by the Secretary of State).

1.6. Ofgem is responsible for the implementation of the reforms, in line with the legislative and project aims. The Act provides Ofgem with transitional powers for seven years from the date of Royal Assent,¹⁰ 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.¹¹

1.7. This consultation sets out our approach to implementing code governance reform and transitioning to the new governance arrangements.

Background

1.8. Industry codes contain the detailed rules of participation in the electricity and gas wholesale and retail markets. Licensees are required to maintain, become party to, and/or comply with the industry codes in accordance with the conditions of

⁷ Code manager conflicts of interest will be managed via the selection processes and code manager licence conditions. We will consult jointly on this with government in Q1 2024.

⁸ Bodies responsible for the IT systems underpinning the code arrangements and designating by the Secretary of State under s184 of the Act.

⁹ Section 192 of the Energy Act 2023.

¹⁰ Expiring October 2030.

¹¹ Compensation, if applicable, would be paid by the incoming code manager, or, in accordance with the Act, a different person if directed by Secretary of State.

their licence. Certain non-licensed participants in the sector are also party to some codes.

- 1.9. Each code has an industry panel or committee that oversees the assessment of proposed changes to that code, and makes certain decisions related to the codes' operation. They are supported by a code administrator or secretariat function.
- 1.10. Proposed changes to the codes must be designed to better facilitate the code's ability to meet its objectives, which are set out in the relevant licence. Ofgem makes the decision on all material code changes, based on whether the proposed change better facilitates the relevant code objectives compared to the status quo, and, whether the proposed change is consistent with our principal objective and statutory duties.¹² Although we are the final decision-maker on proposed code changes, our ability to influence the raising and progression of changes under the current governance arrangements is limited.¹³
- 1.11. In July 2019, Ofgem and the Department for Business, Energy and Industrial Strategy (BEIS)¹⁴ published a joint consultation¹⁵ setting out proposals for a reformed code governance framework, which were informed by the Competition and Markets Authority's (CMA's) energy market investigation (2016).¹⁶ The CMA found that the existing code governance framework resulted in adverse impacts on competition arising from code parties' conflicting interests. It also found that there were limited incentives to deliver policy change in the interests of consumers.
- 1.12. In July 2021, we issued a further joint consultation¹⁷ on the design and delivery of energy code reform. The April 2022 government response¹⁸ to that consultation confirmed that Ofgem will take on new roles, including publishing an annual strategic direction for codes, and licensing code managers. As a new type of licensee, code managers will take on existing code administrator and panel

¹² Our principal objective and statutory duties are set out in section 3A of the Electricity Act 1989 and section 4AA of the Gas Act 1986. Our principal objective is to exercise our functions in a way which will protect the interest of existing and future consumers. The Energy Act 2023 has also amended our existing duties to place a specific statutory net zero duty on Ofgem to achieve its duties by supporting the Secretary of State's compliance with the duties 1 and 4(1)(b) of the Climate Change Act 2008 (2050 net zero target and five-year carbon budgets).

¹³ Ofgem is the decision-maker on proposed code changes that may have material impacts. We may also undertake 'significant code reviews' (SCRs) which may result in the raising of code modification proposals.

¹⁴ [About us - Department for Business, Energy & Industrial Strategy - GOV.UK \(www.gov.uk\)](https://www.gov.uk/about-us).

¹⁵ [Reforming energy industry codes: consultation, September 2019 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/reforming-energy-industry-codes).

¹⁶ [Energy market investigation: Final report, June 2016 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/444444).

¹⁷ [Design and Delivery of the Energy Code Reform: consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/design-and-delivery-of-the-energy-code-reform).

¹⁸ [Government response to the consultation on Energy Code Reform \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/government-response-to-the-consultation-on-energy-code-reform).

remits, and will be responsible for delivering code change in line with Ofgem's strategic direction.

- 1.13. These measures, along with supporting provisions, were set out in the government's 2022 Energy Bill. Alongside the Bill's progression, and in preparation to implement the reform package, we published a Call for Input in December 2022 seeking views on options for potential code consolidation, the content of the code manager licences and the role of stakeholders in the new governance framework. We also published an independent report on code consolidation options prepared by Cornwall Insight.¹⁹
- 1.14. Subsequently, in May and June 2023, Ofgem and DESNZ held a series of joint workshops seeking stakeholder views on code manager selection, code manager licences and code governance arrangements under the new regime.
- 1.15. We have considered stakeholder responses to our Call for Input and views put forward at the subsequent workshops when developing proposals for this consultation. We have summarised these views where relevant.

What are we consulting on?

- 1.16. Following Royal Assent of the Energy Bill in October 2023, we are now consulting on our approach to implementing code governance reform.
- 1.17. This document is an Ofgem consultation focusing on proposals relating to our new statutory functions, and the use of the transitional powers given to us in the Act.
- 1.18. Our ability to implement code governance reform will be dependent on planned activities by DESNZ, namely the designation of code manager licence conditions and the passage of secondary legislation related to code manager selection. These policy areas will be consulted on as part of a joint consultation with DESNZ, which we expect will be published in Q1 2024.
- 1.19. Below we summarise the areas that we are inviting stakeholder inputs on.

Section 2: Designation of codes and central systems

- 1.20. This section recaps on the scope of code reform and sets out which codes and central systems we intend to recommend the Secretary of State should designate as "qualifying documents" and "qualifying central systems" for the purposes of

¹⁹ The Call for Input and Cornwall Insight report, as well as all non-confidential responses received, are available on Ofgem's website [here](#).

the use of the transitional powers conferred to Ofgem by virtue of Schedule 12 of the Act.²⁰

Section 3: Code consolidation

- 1.21. This section sets out our approach to assessing a shortlist of code consolidation options and presents our preferred options.
- 1.22. This section should be read in conjunction with the accompanying draft impact assessment, which we have published alongside this consultation, where we set out further detail on the quantitative and qualitative analysis used to inform these proposals.

Section 4: Strategic direction

- 1.23. This section sets out our proposed approach to implementing Ofgem’s Strategic Direction Statement (SDS), including proposed process and timings.

Section 5: Code governance arrangements

- 1.24. This section sets out our proposed approach to establishing the role of Stakeholder Advisory Forums. It includes our proposal to create a workgroup to help us identify what an updated code modification process should look like. We also explain our intention to review the existing code objectives, and harmonise the code modification prioritisation processes under the existing arrangements.

Section 6: Transition

- 1.25. This section sets out our proposed approach to transitioning the codes to the new governance framework. It presents and seeks views on our proposal to phase the transition. We also set out an indicative order in which we have proposed to transition the codes to the new arrangements (subject to decisions on code consolidation).

Stakeholder Engagement

- 1.26. We want to ensure that all stakeholders who are impacted by energy code reform can engage throughout the implementation process and have their views heard.
- 1.27. The role of industry stakeholders is, and will remain, a central part of the successful governance of the industry codes. We welcome engagement with all interested stakeholders as we continue to develop our implementation approach.

²⁰ The requirement for Ofgem to make a recommendation to the Secretary of State is set out in Schedule 12, paragraph 1, sub-paragraph (7) of the Energy Act 2023.

1.28. We intend to host a webinar summarising our key proposals both in this consultation and our forthcoming joint consultation with DESNZ. If you would like to register your interest in attending, please email us at industrycodes@ofgem.gov.uk.

Code Modification Process Workgroup

1.29. Alongside this consultation, we have published an invitation for industry experts to join a Modification Process Workgroup.²¹ The objective of this workgroup is to help us develop a code modification process that incorporates the roles and responsibilities introduced by energy code reform.

1.30. If you would like to express an interest in participating in this workgroup, or have views on the draft Terms of Reference set out in the invitation, please let us know by emailing industrycodes@ofgem.gov.uk by Monday 4 March 2024.

Context and related publications

1.31. Documents relating to this consultation include:

- Design and Delivery of the Energy Code Reform: consultation (publishing.service.gov.uk)
- Government response to the consultation on Energy Code Reform (publishing.service.gov.uk)
- Call for Input: Energy Code Governance Reform (ofgem.gov.uk)
- Energy Act 2023 (legislation.gov.uk)

1.32. We continue to work jointly with DESNZ on the regulatory framework for energy code reform. We expect to publish a joint consultation with DESNZ in Q1 2024 on code manager licence conditions and secondary legislation for code manager selection.

Consultation stages

1.33. This consultation closes on 23 April 2024. We intend to publish a decision later this year and will consult further on detailed implementation arrangements in due course. Section 6 contains a high-level overview of the consultation stages for code reform implementation.

²¹ This can be found as a subsidiary document to this consultation, at [Energy Code Reform | Ofgem](#).

How to respond

- 1.34. We want to hear from anyone interested in this consultation. Please send your response to industrycodes@ofgem.gov.uk.
- 1.35. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can. A response template has been provided as a subsidiary document to this consultation on the Ofgem website.
- 1.36. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.37. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.38. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.39. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.40. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.41. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

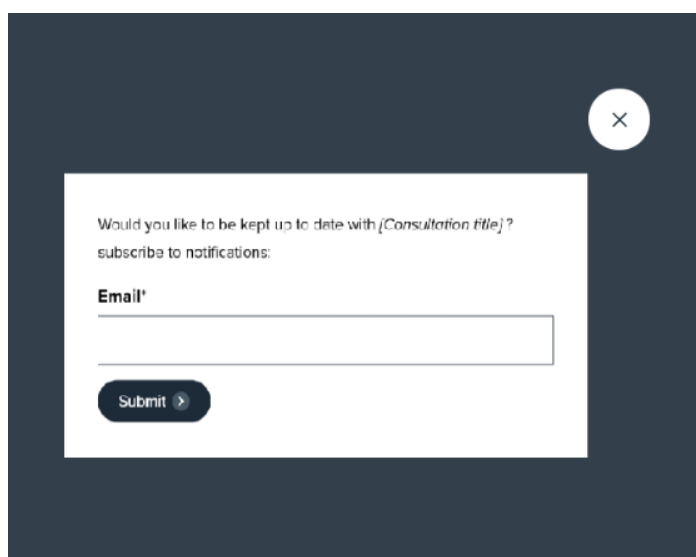
- 1) Do you have any comments about the overall process of this consultation?
- 2) Do you have any comments about its tone and content?
- 3) Was it easy to read and understand? Or could it have been better written?
- 4) Were its conclusions balanced?
- 5) Did it make reasoned recommendations for improvement?
- 6) Any further comments?

1.42. Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

1.43. You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

Notify me +



The image shows a dark-themed modal window with a white background for the form. At the top right of the modal is a close button (an 'x' in a circle). The form text reads: "Would you like to be kept up to date with [Consultation title]?" followed by "subscribe to notifications:". Below this is a label "Email*" and a text input field. At the bottom left of the form is a "Submit" button with a right-pointing arrow.

1.44. Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Designation of codes and central systems

Section summary

This section sets out which codes and central systems we intend to recommend to the Secretary of State should be designated as “qualifying documents” and “qualifying central systems” for the purposes of the use of the transitional powers conferred to Ofgem by virtue of Schedule 12 of the Energy Act 2023.

Questions

Q1. Do you agree that we should recommend to the Secretary of State that the 11 industry codes listed (including the SQSS) should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Q2. Do you agree that we should recommend to the Secretary of State that the 5 central systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Background

- 2.1. To facilitate the implementation of the new code governance framework, the Energy Act 2023 (the ‘Act’) grants Ofgem certain time-limited transitional powers.²²
- 2.2. To use these transitional powers in relation to a specific document or central system, it must first be designated for this purpose by the Secretary of State, following a recommendation from Ofgem. The Act requires Ofgem to consult prior to making such a recommendation.²³ The relevant documents and systems will be referred to as ‘qualifying documents’ and ‘qualifying central systems’ once designated for this purpose by the Secretary of State.
- 2.3. Among other things, the Act’s transitional powers will allow Ofgem to modify existing codes, licences, and contracts. We intend to use these powers to make changes to relevant documents to implement the reforms.
- 2.4. Once Ofgem has selected a code manager, and the necessary changes for them to commence their role are in place, the code and any related central system will

²² As set out in Schedule 12 of the Act. These transitional powers last for up to seven years from October 2023.

²³ Paragraph 1, sub-paragraph (8) of Schedule 12 of the Act.

be designated by the Secretary of State as 'designated documents' and 'designated central systems'.²⁴ The new enduring governance arrangements will be in place for the relevant code or central system following this final designation.²⁵

Codes

2.5. In the April 2022 government response,²⁶ we confirmed that the following codes and standards will fall within the scope of energy code reform. These codes would therefore be overseen by licensed code managers, either as a standalone document or as part of a consolidated code:

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

2.6. We now intend to recommend to the Secretary of State that each of these codes and standards should be designated as 'qualifying documents' for the purposes of utilising our transitional powers, as prescribed by the Act, to implement energy code reform.²⁷

2.7. With regards to the SQSS, we note that it does not currently meet the necessary requirements under the Act to be designated as a 'qualifying document', as the

²⁴ The list of designated documents is dependent on code consolidation.

²⁵ The enduring governance framework is introduced by Part 6 of the Act. This includes the appointment and licensing of code managers, Ofgem's duty to issue an annual Strategic Direction Statement, Ofgem's ability to directly modify the codes, and the power for Ofgem to issue enforceable directions to central system delivery bodies.

²⁶ See [Reforming the energy industry codes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/reforming-the-energy-industry-codes)

²⁷ Note that this designation is solely for the purposes of using our transitional powers. The list of codes included in the enduring designation of codes is subject to code consolidation, as discussed later in this consultation.

SQSS is not currently "maintained in accordance with the conditions of a relevant licence".²⁸ We therefore intend, prior to making a recommendation to the Secretary of State in respect of the SQSS, to modify the standard licence conditions of the Electricity Transmission Licence to address this, by placing an obligation on the electricity system operator to maintain the SQSS.

- 2.8. Our view is that the electricity system operator is already largely fulfilling this role in practice, however, we recognise that the relevant licence condition does not reflect this, as the SQSS was not originally set up as an industry code. We expect to consult on this licence modification in due course, and in the meantime welcome comments on this from interested stakeholders.

Central Systems

- 2.9. In the 2022 government response, we also confirmed that the following central system delivery functions would be captured within the scope of our reforms:
- the central system delivery function underpinning the gas industry arrangements (including those contained in the UNC), currently undertaken by Xoserve
 - the central system delivery function underpinning the electricity industry balancing and settlement arrangements, currently undertaken by Elexon
 - the central system delivery function underpinning the rules and requirements for service delivery for smart metering that are under the SEC, currently operated by the Data Communications Company (DCC)
 - the central system delivery function underpinning the Data Transfer Service (DTS), which carries data used in the change of supplier process (as required by the REC and BSC), currently operated by Electralink.
- 2.10. As stated in the 2022 government response, these four central systems play an important role in the industry code framework, and we consider them to be vital to the future development of the energy system. Our reforms seek to ensure effective coordination between code managers and relevant central system delivery bodies, which in turn will ensure the effective development and delivery of code and system changes.
- 2.11. Additionally, the Central Switching Service (CSS), currently operated by the DCC, went live in July 2022 and, as stated in the April 2022 government response, we

²⁸ As required under paragraph 1, sub-paragraph (1)(b) of Schedule 12 of the Act.

consider that this system delivery function should also fall within the scope of energy code reform now that it is operational.²⁹ This central system will play an important role in the future development of the energy system, where it will facilitate effective competition and improve the experience of consumers. We consider that, like the central systems listed above, and in line with the objectives of our reforms, the CSS should be subject to enhanced oversight and improved coordination between central systems and code managers.

- 2.12. We therefore propose to recommend to the Secretary of State that the four systems initially named above, plus the CSS, should be designated as 'qualifying central systems' for the purposes of utilising our transitional powers, as prescribed by the Act.
- 2.13. The Act provides Ofgem with an enduring power to issue directions to the entity responsible for any designated central system,³⁰ to ensure they comply with their obligations under the relevant code and/or to take any steps Ofgem considers necessary for the efficient ongoing operation and implementation of the codes.
- 2.14. To facilitate the carrying out of Ofgem's power to issue directions, the transitional powers in the Act will allow Ofgem to modify relevant licences, codes and contracts.³¹ This could include, among other things, amending contracts to ensure system bodies are able to comply with, and recover costs incurred from, directions issued by Ofgem. We will engage with stakeholders on this in due course.

²⁹ [Formal Designation of "CSS Go Live" | Ofgem.](#)

³⁰ As set out in section 194 of the Energy Act 2023.

³¹ Schedule 12 of the Energy Act 2023.

3. Code consolidation

Section summary

This section sets out our approach to assessing a shortlist of code consolidation options.³² It then presents, and seeks views on, our proposal to:

- a) consolidate the CUSC and DCUSA to form a unified electricity commercial code
- b) consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code
- c) consolidate the UNC and IGT UNC to form a unified gas network code.

This section should be read in conjunction with the accompanying draft impact assessment, where we set out further detail on the quantitative and qualitative analysis used to inform these proposals.

Questions

Q3. Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (ie the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.

Q4. Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (ie the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.

Q5. Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?

Q6. Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?

Q7. Do you agree with our preferred option to consolidate the UNC and IGT UNC to form a new unified gas network code?

Q8. Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?

³² The codes under consideration are: Balancing and Settlement Code (BSC), Connection and Use of System Code (CUSC), Distribution Connection and Use of System Agreement (DCUSA), Grid Code, Distribution Code, System Operator – Transmission Owner Code (STC), Security and Quality of Supply Standard (SQSS), Uniform Network Code (UNC), Independent Gas Transporters Uniform Network Code (IGT UNC), Smart Energy Code (SEC) and Retail Energy Code (REC).

Background

3.1 To facilitate the transition to the new code governance framework, the Energy Act 2023 ('the Act') sets out time-limited transitional powers for Ofgem.³³ Some of these powers were, among other things, designed to facilitate the delivery of code consolidation. We consider that consolidation would support the effective implementation of the new enduring code governance framework introduced by the Act, by both addressing long-standing complexity in the current code framework and streamlining its governance prior to the appointment of code managers. We believe that code consolidation will contribute to addressing two key problems within the current framework:

- **Fragmentation of codes leads to poor co-ordination and slows pace of change:** the current code structures can make it difficult to coordinate and implement changes across codes effectively. For example, when a change is raised in one code, the current mechanisms in place to identify and understand the impacts on other codes are not always effective. This lack of coordination can inhibit the efficient delivery of strategic change. We believe that the codes need to be better coordinated and able to adapt quickly to facilitate the transition to net zero and deliver benefits for consumers.
- **Complexity of the code landscape makes it difficult for parties to engage with and understand the rules that apply to them, which, in turn, creates barriers to effective compliance, competition, and innovation:** the gradual and piecemeal evolution of the industry codes has resulted in increased complexity, including different approaches to governance under different codes, which can act as a barrier to code parties (particularly new and smaller parties) engaging effectively with the codes. We believe that this complexity risks inhibiting competition and innovation that drives benefits for consumers. As the sector evolves, the codes will need to be accessible to a more diverse range of market participants, which will also enable new business models and technologies.

3.2. While it would still be possible to consolidate codes at a later stage, after the appointment of licensed code managers, we anticipate that this would be significantly more challenging and time consuming. For example, we would need to rely on our enduring powers, which are not as wide ranging as the transitional

³³ These transitional powers, set out in Schedule 12 of the Act, end upon appointment of the first code manager for each code, or, if earlier, after a period of seven years after the day on which the Act was passed.

powers granted under the Act, and would need to navigate additional challenges, such as potentially revoking or amending code manager licences in order to enact consolidation of codes which already had appointed code managers. We are therefore exploring code consolidation now, to determine the optimum configuration of codes to best realise the intended outcomes of energy code reform, ahead of the appointment of code managers.

- 3.3. We intend for any consolidation activities undertaken during the transitional period to form the first phase of a longer-term exercise to rationalise and simplify the codes. This longer-term exercise would be led by the incoming code managers under the new governance framework, rather than by Ofgem using the transitional powers granted by the Act.
- 3.4. Consolidation of codes at this stage would therefore be limited to the following activities:
- establishing a common contractual framework for the consolidated code, bringing the provisions of two or more existing codes into a single document and overseen by a single code manager
 - delivering targeted rationalisation and simplification of the rules within the consolidated code to promote the efficient governance of the code.
- 3.5. In the short term, a consolidated code would therefore make provision for two (or more) separate sets of operational or substantive rules. We expect to specify which sections within the newly consolidated codes would be applicable to different party categories to ensure that parties do not become subject to provisions which are not relevant to them.³⁴
- 3.6. We then expect that code managers, once in place, will be tasked with exploring opportunities for further rationalisation and simplification of the code content, and Ofgem would be able to influence this where necessary via our annual Strategic Direction Statement.³⁵ We would expect any such changes to be developed with the support of industry parties, via the code modification process.
- 3.7. While we focus on 'whole' codes being consolidated in this consolidation, it may be appropriate, or beneficial, for certain provisions within a code to be moved into other codes.³⁶ We will discuss this in more detail, where relevant, following the

³⁴ This would be a similar approach to that taken within the REC, where different REC schedules are mandatory to different party categories.

³⁵ The duty to publish an annual Strategic Direction Statement is introduced by the Act.

³⁶ This would be similar to Retail Code Consolidation, where elements of various existing codes were moved into the REC.

outcome of this consultation, however we welcome initial views on this from stakeholders.

Our 2022 Call for Input

3.8. In our Call for Input,³⁷ we set out and sought views on our early thinking on code consolidation. Below, we summarise some of the feedback received, and explain how this has informed our policy development.

Design principles

3.9. Our Call for Input proposed a set of design principles against which we would assess options for consolidation. These were:

- making it easier for market participants to engage with and understand the codes
- enabling the codes to be agile and adaptable to future market arrangements
- facilitating the delivery of strategic change and being compatible with new code governance arrangements
- supporting the ongoing operation of central systems.

3.10. These design principles were developed to build upon the overarching objectives of energy code reform and were broadly supported by most respondents to the Call for Input. However, some respondents provided comments on possible changes to the design principles. In light of those comments, we have further developed the design principles and these are now set out in Table 1, below.

3.11. We have decided to discount the original design principle which focused on the operation of central systems. Instead, we have decided to consider possible disruption across the sector (including on central systems) via the third design principle listed in Table 1.

³⁷ [Energy Code Governance Reform | Ofgem](#)

Table 1: Code consolidation design principles

Design principle	Description	Changes since CfI
Making it easier for market participants to engage with and understand the codes	Enabling more effective accession, engagement and compliance, and reducing the amount of time and resource required for market participants to identify and understand the rules that apply to them.	No change.
Facilitating the delivery of strategic change and enabling the codes to be agile and adaptable to future market arrangements	Supporting the effective and efficient delivery of future strategic change and industry reforms that benefit consumers. This includes the delivery of the strategic direction that will be set by Ofgem and supporting the achievement of net zero targets. Codes should also be able to adapt well to significant market or industry changes, while also being able to reflect the commercial interests of market participants.	This new design principle consolidates the original second and third principles. We have also included a specific reference to net zero in the description in order to reflect the new net zero duty that has been placed on Ofgem via the Act. ³⁸
Supporting the implementation of the new code governance arrangements and minimising disruption	Supporting the effective and successful implementation of the new code governance arrangements set out in the Act, including the appointment of licensed code managers. It should support the ongoing operation of the codes and central systems and avoid causing unreasonable disruption to market participants during implementation.	We have extracted the compatibility element of the original third principle to create a new design principle, which also considers the likely disruption caused by code consolidation.

Consolidation options

3.12. In the Call for Input, we also set out, and sought views on, our early thinking on some high-level options for code consolidation, namely: no consolidation; vertical consolidation within each fuel type; and horizontal consolidation across fuels. These options have been summarised in Table 2 below. Alongside the Call for Input, we published an independent report by Cornwall Insight.³⁹ This report was commissioned by Ofgem to assess a non-exhaustive range of high-level options for code consolidation.

³⁸ As set out in section 202 of the Energy Act 2023.

³⁹ Cornwall Insight Code Consolidation Report, [Energy Code Governance Reform | Ofgem](#).

Table 2: High-level options for code consolidation from our Call for Input

Options	Description
No consolidation	Retaining the existing 11 codes and standards in scope of the energy code reforms, with a code manager appointed for each code.
Vertical consolidation	Keeping the code rules relating to gas and electricity separate, with the exception of the existing dual-fuel retail codes (SEC and REC). The electricity and gas codes could then be consolidated into one or more fuel-specific codes. The SEC and REC could either be kept as separate codes or be consolidated into a single dual-fuel code.
Horizontal consolidation	Bringing gas and electricity codes together to adopt a dual-fuel code framework. For example, a 'dual-fuel charging code' could set out the network charging arrangements for both gas and electricity systems.

3.13. In our Call for Input, we indicated our early preference for a vertical consolidation approach, and this was supported by the majority of respondents. A number of points were made in favour of this approach, including that it would be the quickest approach to implement, less disruptive than a horizontal approach, and would allow the necessary fuel-specific focus to remain.

3.14. Some respondents expressed a preference for no consolidation, citing existing pressures and challenges facing the industry. However, it was recognised by a few respondents that not pursuing consolidation now, as part of energy code reform, would be a missed opportunity to reduce complexity and fragmentation.

3.15. There was limited appetite to explore horizontal (ie dual-fuel) consolidation, with many respondents noting that it would be too complex, disruptive, and costly to implement.

3.16. Having considered the responses to our Call for Input, a vertical approach to consolidation remains our preference, and we have decided not to further consider any form of horizontal consolidation.⁴⁰ This preference is reflected in the list of shortlisted and preferred consolidation options set out below.

3.17. We also received comments relating to specific codes. Firstly, several respondents to the Call for Input commented that the BSC should be left alone as it is an already complex code playing a key role in electricity balancing and settlement. A few respondents to the Call for Input also referred to the ongoing Review of

⁴⁰ As mentioned in our Call for Input, we note that dual-fuel codes exist at a retail level, with the REC and the SEC, however we do not consider it would be beneficial to pursue a similar approach at a wholesale or network level.

Electricity Markets (REMA) and the links with the BSC.⁴¹ The direction of travel of REMA is still to be determined, however several of the options being considered under REMA could have a significant impact on the BSC. We agree with the views expressed and therefore propose to leave the BSC as a standalone code.

- 3.18. Furthermore, after considering responses to the Call for Input, we are also proposing that the SEC and REC should remain as standalone codes. We do not consider that there are suitable similarities between these two relatively new codes to merit consolidation at this stage. Nevertheless, we may reconsider the merits of consolidating these codes at a later point, should future circumstances warrant further review of this.
- 3.19. For the remaining codes, the options presented in the Cornwall Insight report, along with the responses to the Call for Input, have informed a shortlist of consolidation options that we have assessed further, and that we discuss in this section. Alongside this consultation, we have also published a draft impact assessment that considers the anticipated costs and benefits of each of the shortlisted options against a counterfactual 'no consolidation' option.

Shortlisted and preferred options

Electricity codes

- 3.20. For the six electricity codes⁴² (excluding the BSC) we considered two approaches to consolidation.
- 3.21. The preferred option would be to recognise the growing coalescence between distribution and transmission networks by consolidating the electricity codes based on their subject matter, rather than network level. This would result in:
- an electricity commercial code containing the provisions currently held within the CUSC and DCUSA
 - an electricity technical code containing the provisions currently held within the Grid Code, SQSS, STC and Distribution Code.
- 3.22. An alternative approach that we considered was to establish 'one stop shops' for both transmission and distribution rules by consolidating the electricity codes by network level. This would result in:

⁴¹ [Review of electricity market arrangements, 2022.](#)

⁴² CUSC, Grid Code, STC, SQSS, DCUSA and Distribution Code.

- an electricity transmission network code containing the provisions currently held within the CUSC, Grid Code, STC and SQSS
- an electricity distribution network code containing the provisions currently held within the DCUSA and Distribution Code.

3.23. As shown by the analysis in the accompanying draft impact assessment, we intend to discount this alternative approach at this stage and are not proposing to take it forward. The analysis set out below therefore focuses solely on the proposals contained within our preferred option, namely the creation of a unified electricity commercial code and a unified electricity technical code.

Gas codes

3.24. For gas, we have considered the merits of consolidating the UNC and IGT UNC to form a unified gas network code and have previously seen strong support from stakeholders to explore this option. These codes are already very similar in structure and content, with changes in the UNC often requiring a mirror or consequential change to the IGT UNC.

The counterfactual

- 3.25. We have assessed the shortlisted consolidation options above against the following counterfactual:
- maintaining the current set of codes, with a code manager for each existing code
 - code managers are tasked with delivering improvements within their codes to support their efficient operation and cross-code coordination. Such improvements could include rationalisation and simplification of the code text.

Summary of approach to analysis

3.26. To assess each of our options, we used a combination of quantitative and qualitative analysis, as summarised below. A detailed description of the analysis is set out in the accompanying draft impact assessment.

Quantitative analysis

3.27. We performed our quantitative assessment by developing an economic model to estimate the Net Present Value (NPV) of each consolidation option, which are summative values that weigh the transitional costs of consolidating the codes against the enduring benefits of reform. The core inputs for this model were derived by estimating how much money is spent by relevant actors on code

governance today, namely code parties, code administrators and Ofgem, and then adjusting those figures to account for the anticipated impact of consolidation on future spending.

- 3.28. After calculating these figures, we used the model to estimate lower, central and upper NPV values for each consolidation option. For the cost side of the model, we sought to capture the amount of time and resource that would likely be required to undertake any consolidation exercise, such as reviewing the codes and developing any necessary modifications. For the benefit side of the model, we sought to capture the value of reform by identifying outcomes that would be likely to result in enduring savings over time, such as streamlined governance functions and reduced consequential modifications. When considered as a whole, the resulting cost-benefit estimates allowed us to assess the relative value of each consolidation option over time, alongside the results of the qualitative analysis set out below.

Qualitative analysis

- 3.29. To support the economic cost benefit analysis, we also undertook a qualitative assessment of the hard-to-monetise costs and benefits of each consolidation option against the counterfactual 'no-consolidation' approach.
- 3.30. As mentioned above, we developed a set of design principles (Table 1) against which we have assessed the shortlisted options and the counterfactual.
- 3.31. We awarded a score for each option against each design principle and then used those scores to inform our preferred options. They ranged from a high of +2 (high likelihood of positive outcomes) to a low of -2 (high likelihood of negative outcomes), with a score of 0 representing a balance between the likelihood of positive and negative outcomes.

Analysis of preferred options

- 3.32. Based on the analysis set out in the draft impact assessment, we have identified our preferred options for consolidating the electricity and gas codes.⁴³ Although we believe there is merit in taking all three of these consolidation exercises forward, it is worth noting that they are not mutually dependent so it would be possible to implement any number of them in isolation.

⁴³ As mentioned earlier in this consultation, we have not considered further any consolidation options involving the BSC, SEC and REC.

Electricity codes

- 3.33. We think that there are significant benefits to be realised by consolidating the electricity codes by subject matter. We expect that establishing codes which span both transmission and distribution network levels, but which remain fairly specialised in terms of subject matter, would present good opportunities for rationalisation and alignment of the substantive content of the codes over time, which in turn would reduce the burden on code parties and make it easier for them to identify and understand the rules that apply to them.
- 3.34. While we are not proposing to achieve such outcomes in the initial consolidation exercise (which, as noted above and explained further below, will focus on creating a unified governance framework), we consider that further rationalisation and alignment across transmission and distribution arrangements could be delivered later by the code manager.

Unified electricity commercial code (CUSC and DCUSA)

- 3.35. Our quantitative analysis indicates possible savings to be realised by consolidating these two codes of around £35 million over a 12-year horizon.⁴⁴
- 3.36. We consider that the consolidation of these codes, followed by subsequent rationalisation and alignment, as described above, could support better decision making, allowing network operators and users to better consider the impacts of decisions holistically across electricity system. This could also support better alignment of connection and charging principles across transmission and distribution network levels, should there be merit in pursuing this in future.
- 3.37. We note that the resultant consolidated code would be large and would serve a larger and more diverse range of stakeholders. Therefore, it will be essential to ensure that any prospective code manager would need to ensure that it has the appropriate skills and resources to oversee the code effectively. However, by retaining a relatively specialised code in terms of subject matter, we expect that this would be more feasible than were we to pursue an approach of consolidating codes with different subject matters (ie consolidating commercial and technical rulebooks across network level).

⁴⁴ This Net Present Value (NPV) central estimate is an aggregate of the identified monetised costs and benefits for Ofgem, the code manager and industry stakeholders.

Unified electricity technical code (Grid Code, STC, SQSS and Distribution Code)

- 3.38. Our quantitative analysis indicates possible savings to be realised by consolidating these four codes of £28 million over a 12-year time horizon.⁴⁵
- 3.39. Given the significant crossover in terms of stakeholders engaging with the four existing codes, we expect this consolidation exercise to have a significant impact on the number of codes that participants are required to interact with. We consider this would greatly reduce the burden on participants.
- 3.40. As with the consolidation of CUSC and DCUSA, this consolidation approach would also maintain a relatively specialised code. We note that the STC also covers some commercial arrangements. However, given the existing interactions between the STC and Grid Code,⁴⁶ we consider there are benefits to be realised by this consolidation approach. We think that consolidating these codes will support more effective whole electricity system thinking in future, ensuring that the technical rules governing the system evolve in a holistic manner. We expect this will also have a positive impact on the operation of the Future System Operator (FSO),⁴⁷ allowing it to consider security of supply matters under a single code.⁴⁸
- 3.41. Any prospective code manager for this consolidated code would need to have the capacity to effectively cover both transmission and distribution matters. However, we expect that this would be more effective and efficient than appointing up to four different code managers for the four existing codes.
- 3.42. We received some feedback from transmission owner licensees in response to our Call for Input that the SQSS and STC should remain as standalone codes given the role these codes play in setting obligations on transmission licensees in relation to system security and planning. However, given the relative size of these codes, as well as the relatively low level of modification activity,⁴⁹ we think that it would be disproportionate, and thus inefficient, to leave these as standalone codes with their own code managers appointed. Furthermore, we

⁴⁵ This NPV central estimate is an aggregate of the identified monetised costs and benefits for Ofgem, the code manager and industry stakeholders.

⁴⁶ For example, certain STC requirements are detailed in the Grid Code.

⁴⁷ Referred to in the Energy Act 2023 as the Independent System Operator and Planner.

⁴⁸ Currently, provisions relating to security of supply for the transmission and distribution networks are respectively contained within the SQSS and Distribution Code.

⁴⁹ Based on Ofgem records, between 2018 and 2023, a combined total of 140 modifications were raised to these four codes. This compares to 139 for CUSC and 119 for DCUSA over the same period.

consider that there are sufficient existing interactions between these codes to justify consolidating them.

Unified gas network code (UNC and IGT UNC)

- 3.43. We propose to consolidate the UNC and IGT UNC to establish a unified gas network code. We believe that the similarity of content covered by the existing codes creates unnecessary duplication of rules. Reducing this duplication would lead to cost and time savings across the industry, which our quantitative analysis estimates would be the equivalent of roughly £41 million over a 12-year horizon.⁵⁰
- 3.44. Establishing a unified gas network code would allow the incoming code manager to rationalise and simplify the rules, thereby removing duplication and making it easier for parties to identify and understand which rules apply to them. We expect that streamlining operational content within the newly consolidated code would also increase its agility, making it more efficient and adaptable to future changes as the gas industry evolves to meet government net zero targets.
- 3.45. A key operational benefit of a unified gas network code would be a reduced requirement for code modification work. The calculations in our draft impact assessment suggest that as many as 80% of IGT UNC modifications are required to align with either UNC changes or external factors requiring changes to both codes. Code consolidation would make this process more efficient by allowing these changes to be considered simultaneously, rather than by different groups of individuals under separate governance processes.
- 3.46. We also expect that consolidating the gas codes would support the implementation of energy code reform. For example, the need to select and license only a single code manager for gas, rather than two, should speed up the overall transition process and make it more efficient. The two codes have a high level of technical similarity so we do not anticipate the consolidation would adversely impact the ability to identify a suitable code manager.
- 3.47. We are mindful of concerns raised in response to our Call for Input about a potential loss of voice for some parties in a consolidated gas code, such as IGTs and smaller shippers, as well as the potential difficulties associated with interacting with a larger code. We believe that our proposals for Stakeholder Advisory Forums (SAFs) will help to mitigate the first of these concerns, and that

⁵⁰ This NPV range is an aggregate of the identified monetised costs and benefits for Ofgem, the code manager and industry stakeholders.

further rationalisation and simplification of the codes, led by code managers once in place, will address the latter. As mentioned above, in the short term, we will explore opportunities to deliver targeted rationalisation during the code consolidation stage, and this is discussed in more detail later in this section. It is also worth noting that we expect IGT-specific rules to remain in a consolidated code where appropriate, in line with the precedent for this approach in electricity where the DCUSA covers both DNOs and IDNOs.

Rationalising code provisions

3.48. As described above, we intend for any consolidation exercise during the transition period to focus on the following activities:

- establishing the common contractual framework for the consolidated code, bringing the provisions of two or more existing codes into a single document, overseen by a single code manager; and
- delivering targeted rationalisation and simplification of the rules within the consolidated code to promote the efficient governance of the code.

3.49. In our Call for Input, we sought views on which code provisions should be targeted for rationalisation and simplification during any code consolidation activity. The most common provisions identified by respondents were:

- party accession arrangements
- code modification procedures
- code compliance and enforcement arrangements
- credit cover arrangements.

3.50. Several respondents highlighted the need to deliver consolidation and rationalisation in a way that enables new code managers to deliver their roles effectively and efficiently. We agree that any rationalisation of code provisions should support code managers in delivering their role from day one, as well as more generally making the code processes easier for stakeholders to engage with.

3.51. Following stakeholder feedback, we are proposing to consider rationalising (and where possible, simplifying) the following code provisions, as relevant, as part of Ofgem-led code consolidation. We are seeking views on these proposals. Based on the feedback we receive, we would consult on more detailed proposals in due course, following our decisions on code consolidation.

Common contractual framework

- 3.52. For each consolidation exercise, we intend to establish a single common contractual framework for each newly consolidated code.⁵¹ The code manager will become a party to this framework agreement, alongside other gas or electricity licence holders (as applicable) who are required by their licence to be party to the consolidated code.⁵²
- 3.53. We expect that any participant who is currently party to a code that is being consolidated, will be required to become a party to the newly consolidated code.⁵³
- 3.54. We note that certain codes do not currently have contractual arrangements. For example, the Grid Code and Distribution Code do not have their own framework agreements and are instead given contractual effect through the CUSC and DCUSA respectively. The SQSS also does not have a contractual framework in place. Therefore, of the four codes proposed for consolidation into a new electricity technical code, only the STC currently has an existing framework agreement and accession/exit arrangements. We will explore the most appropriate approach to establishing a single set of contractual arrangements for this proposed new consolidated code, including who should be required to accede to this code.
- 3.55. For the proposed unified gas network code, we note the current licence arrangements are for each gas transporter and independent gas transporter to have in place their own network code, which incorporates the UNC or IGT UNC respectively. There is minimal additional content within gas transporter individual network codes, and we will further consider the most appropriate way to deal with these legacy arrangements. For example, by including transporter-specific annexes to the proposed new gas network code, if necessary. We will consult on the detailed code consolidation arrangements in due course, following our decision on the proposals set out in this consultation.

⁵¹ In the codes currently, this often takes the form of a framework and/or accession agreement.

⁵² Consequential amendments to existing licences will be consulted on in due course.

⁵³ As mentioned earlier in this section, we would expect to specify which sections within the newly consolidated codes would be applicable to different party categories to ensure that parties do not become subject to provisions which are not relevant to them.

Contract boilerplate and defined terms

- 3.56. We intend to rationalise the existing contractual boilerplate provisions within each newly consolidated code. For example, this includes provisions setting out the language of the code, governing law, and force majeure provisions.
- 3.57. We will seek to establish a standard set of defined terms within each of the consolidated codes.

Party accession and exit

- 3.58. We consider it appropriate to have a single, standard set of accession and exit arrangements within each consolidated code. We expect that this will support the code manager in delivering its role more effectively and will make each consolidated code easier for parties to engage with.

Code objectives

- 3.59. We intend, as far as possible, for each consolidated code to have a single set of applicable code objectives. We note that certain codes also contain charging objectives and we will separately consider how these should be treated where relevant codes are consolidated. Code objectives are discussed further in Section 5.

Code modification process

- 3.60. We intend for each of the consolidated codes to have a single set of code modification arrangements. In Section 5, we have set out our intention to work with industry stakeholders to develop an updated modification process to reflect the new roles and responsibilities introduced by code reform.

Code compliance

- 3.61. The arrangements to monitor party compliance vary between codes at present. In some codes, provisions are in place to allow action to be taken by the relevant code panel, whereas in other codes, non-compliance is dealt with between parties (eg where connection or use of system contracts are in place).
- 3.62. We will consider whether benefits can be realised by rationalising existing compliance arrangements as part of code consolidation. As set out in the 2022 government response, we expect that any decision-making roles in monitoring compliance currently held by code panels and/or code administrators will move to the code managers. Where sub-committees exist to carry out specialist functions,

we will review these and establish appropriate arrangements under the new framework.

Credit cover arrangements

3.63. Requirements to have in place appropriate credit cover are present in a number of the codes. Often these requirements will exist as part of contractual arrangements between network operators and network users. We will consider whether there is merit in rationalising some or all of these arrangements in the event of pursuing code consolidation, however, we do not intend to undermine the ability of network operators to recover costs, and therefore will be mindful of this factor in any further policy development.

Dispute processes

3.64. Dispute and arbitration processes also differ across codes. For the proposed new electricity commercial code, we propose to establish a single set of dispute arrangements. We also intend to explore the merits of a single set of dispute arrangements for the proposed unified gas network code. We think this would make it easier for parties to engage with the code and identify appropriate escalation routes in the event that disputes arise.

3.65. We note that, of the four codes in scope for the new electricity technical code, only the STC currently has formalised dispute arrangements. We will consider further whether these arrangements could or should be expanded to cover the entire proposed technical code.

Derogations

3.66. Under certain codes, provisions are in place to allow for derogations to be issued, alleviating parties of some or all of their obligations under the relevant code. In some codes, this also includes provisions relating to regulatory sandboxes.⁵⁴ These arrangements currently differ from code to code, with the role of issuing derogations generally sitting with either Ofgem or the relevant code panel.

3.67. We will consider whether existing derogation arrangements can, and should, be rationalised within each consolidated code. Furthermore, we note that not all codes have sandbox capabilities, but are aware that this remains a live area of consideration. We will be mindful of this when considering whether to rationalise derogation provisions as part of code consolidation.

⁵⁴ [Energy Regulation Sandbox: Guidance for Innovators | Ofgem.](#)

4. Strategic direction

Section summary

This section sets out our proposed approach to implementing Ofgem’s Strategic Direction Statement (SDS). We propose to publish our first SDS next year, and seek views on proposed process, scope and content. We also seek views on the role of stakeholders in supporting the delivery of code modifications in relation to the SDS.

Questions

Q9. Do you agree with our proposal to publish the first SDS for all codes next year (before code managers are in place)?

Q10. Do you have views on the proposed SDS process?

Q11. Do you agree with our proposal that a principles-based standard condition for gas and electricity licensees would support the development and delivery of code modifications related to the SDS?

GEMA’s Strategic Direction Statement

- 4.1. The Energy Act 2023 (the ‘Act’) provides a new obligation for the Gas and Electricity Markets Authority (GEMA) to issue an annual Strategic Direction Statement (SDS)⁵⁵ for designated industry codes.⁵⁶ The gas and electricity industry codes significantly impact the shape and development of the gas and electricity markets and will play a critical role in the transition to net zero.
- 4.2. Through this new role, Ofgem will set direction for the development of designated gas and electricity codes, in line with our overarching vision for the energy sector. Underpinned by code processes that we will implement to support the delivery of priority change, the SDS will shape the development of codes in the interests of consumers and in line with technological and commercial developments at this critical time of change within the energy sector.

⁵⁵ The Energy Act 2023 set out that: (1) The GEMA must, each year, prepare and publish a statement setting out a strategic direction for designated documents.

(2) A statement prepared and published under subsection (1) is referred to in this Part as a “strategic direction statement”.

(3) A strategic direction statement must in particular—

(a) contain a strategic assessment of government policies, and of developments relating to the energy sector, that the GEMA considers will or may require the making of modifications to designated documents;

(b) cover such other matters relating to designated documents as the Secretary of State may specify in regulations.

⁵⁶ Section 2 of this consultation outlines that codes will be designated once a code manager is in place.

- 4.3. The SDS must contain a strategic assessment of government policies and developments relating to the energy sector that will, or may, require modifications to the designated industry codes. We will assess the government's published Strategy and Policy Statement (SPS) to inform our annual SDS and have regard to any advice given by the Future System Operator (FSO) in relation to our SDS.⁵⁷
- 4.4. In this section, we set out our initial proposals for developing and delivering the SDS, including the proposed role of code managers and industry participants in this process. We also acknowledge that, to support code managers and industry participants in implementing strategic change, we will need to change our ways of working and the way in which we engage with the codes. In line with the government's impact assessment on energy code reform,⁵⁸ we anticipate additional resource will be required to fulfil our new role.

Scope

- 4.5. Our statutory obligation to publish the SDS does not commence for an individual code until a code manager is in place, and the Secretary of State has formally designated that code.⁵⁹ We do not expect to appoint all code managers at the same time (see Section 6) however, to ensure a smooth transition to the new governance framework, we consider that it would be beneficial for the SDS to address the full codes landscape from the outset. This will provide opportunities for strategic change to be progressed and co-ordinated under existing governance, as well as enabling incoming code managers to commence their role effectively from 'day one'. It will also enable Ofgem to build on earlier versions of the SDS as the transition progresses. We therefore propose that our SDS covers all codes that are in scope of energy code reform (as set out in Section 2) from its first publication, whether or not these codes have been designated by the Secretary of State following the appointment of a code manager.
- 4.6. Publication of the SDS is a strategic priority for Ofgem and we are therefore proposing to introduce this from 2025. We propose to consult on the first SDS in winter 2024, alongside Ofgem's Forward Work Programme, with publication of the final SDS in spring 2025. We do not anticipate having code managers in place within this timeframe, meaning that the progression of SDS-related code

⁵⁷ In line with the Energy Act 2023 section 190(4).

⁵⁸ The final impact assessment is available here: <https://www.gov.uk/government/consultations/energy-code-reform-governance-framework>.

⁵⁹ See Section 2 of this consultation.

modifications would be through the existing processes. In Section 5 we propose potential changes to the existing code governance processes, as a step toward implementation of code managers and to support a smoother transition.

- 4.7. As codes are designated, the SDS will be supported by the new code manager licensing arrangements. We expect that code managers will develop delivery plans demonstrating how they will respond to the SDS, by prioritising and resourcing development of relevant code modifications. Requirements to develop delivery plans, and for conducting monitoring, reporting and evaluation (proposed below) will not apply under the existing arrangements. We do however expect to engage with industry stakeholders following publication of the first SDS to see how it has been received and to understand how codes are responding in practice.

Content

- 4.8. To give code managers and industry stakeholders confidence to make decisions and plan for the future, we propose that while each SDS would focus on one-two years ahead, it could cover up to a five year period, depending on the policy area. We expect that SDS content will build on the content of previous years to help provide continuity and support longer term planning.
- 4.9. We anticipate that the SDS will include a broad range of direction. In many cases, it could identify an issue that requires action and allow industry and code managers to decide how best to respond. In other cases, the SDS may be more prescriptive about the outcomes we expect to be achieved, and/or specify the parameters of required modifications.
- 4.10. The type of content included in the SDS will depend on the policy area. Our engagement with stakeholders during the development of the first SDS, and subsequent consultation in winter 2024, will be an opportunity to provide feedback on the level of detail and prescription of the SDS, however we welcome any initial views on this.

Process

- 4.11. The SDS will be consulted on and published annually. In response to the SDS, we expect that code managers will be required by their licence to develop delivery plans setting out how they intend to resource and facilitate delivery of the

priorities in the SDS.⁶⁰ We are developing policy for the code manager role and delivery obligations and will consult on licence and code requirements in due course.

- 4.12. Below, we propose the high-level annual process for developing and implementing the SDS.

Development phase

Research and understanding

- 4.13. We will undertake an assessment of context, including the Department for Energy Security and Net Zero's (DESNZ's) SPS, Ofgem's Forward Work Programme, emerging policy trends, developments and initiatives that may have been launched by government between revised SPSs, and wider developments in the energy sector.
- 4.14. Engagement with external stakeholders would then help to identify the priorities of a range of participants, including code panels and administrators, code managers (once in place), central system delivery bodies, licensed code parties and consumer advocates. Views will be gathered informally, such as through roundtables and workshops.
- 4.15. We will also engage with DESNZ and the FSO to aid further understanding of strategic priorities and their potential impacts on codes.

Assessment and drafting

- 4.16. We will then assess identified policy priorities to understand the complexity, importance and urgency of issues that may require code changes. This assessment would inform the structure and content of the SDS.
- 4.17. Further engagement with key stakeholders would be undertaken during the drafting process, if applicable.

Consultation

- 4.18. A draft SDS will be consulted on, with stakeholder responses taken into account before final publication.

⁶⁰ Code manager standard licence conditions (SLCs) will be consulted on, prior to designation of the SLCs by Secretary of State, in due course.

Implementation phase

Code manager delivery plans

- 4.19. We expect that delivery plans will set out how code managers intend to ensure that the code modifications required to deliver the priorities set out in the SDS are developed and implemented. This may include setting out resourcing plans and timelines. We expect that code managers will engage with stakeholders during the development of delivery plans.⁶¹
- 4.20. Where codes do not yet have a code manager appointed, engagement with the SDS and taking steps to achieve SDS priorities will be encouraged through the existing governance process.⁶²

Reporting and monitoring

- 4.21. We expect that the implementation of code manager delivery plans will be monitored, with code managers reporting on progress. This annual reporting and monitoring will inform the development of the subsequent SDS. Expectations for code manager reporting will be consulted on in due course.

Evaluation

- 4.22. We anticipate a fuller evaluation of delivery of change against the SDS could be undertaken periodically, for example on a two-three year cycle.

Role of stakeholders

- 4.23. In producing and implementing a plan to deliver change in line with the priorities in the SDS, code managers will need input and support from code parties.
- 4.24. We want code managers to have the information they need, at the time they need it, to produce and implement a delivery plan that will enable codes to develop in line with the SDS. Without co-operation from code parties, there is a risk that code manager delivery plans may be delayed in their implementation or resulting code modifications may not be achievable. The engagement and expertise of stakeholders will therefore be crucial to the successful implementation of the SDS. While the Stakeholder Advisory Forum (SAF)⁶³ will play a key role in working with the code manager and supporting the delivery of

⁶¹ We are developing policy for code managers' role and delivery obligations, and will consult on licence and code requirements in due course.

⁶² In Section 5 we propose changes to the existing code governance processes that we consider could facilitate this, in preparation for the future appointment of code managers.

⁶³ See Section 5.

the SDS, we consider there to be a wider role for industry participants to support the development of priority change to the industry rules.

- 4.25. In the current framework, all gas and electricity licences have a standard licence condition to cooperate with Ofgem’s significant code reviews (SCRs).⁶⁴ This licence condition includes obligations relating to the delivery of SCRs, such as cooperation with system testing. We consider that code managers will need support from code parties to effectively deliver modifications related to the SDS in a similar way to that in respect of SCRs.⁶⁵
- 4.26. We therefore propose to add an enduring, principles-based standard condition in all gas and electricity licence types. This condition would require a licensee to support the development and delivery of code modifications related to the SDS, where this is reasonably requested by the code manager, for any code that the relevant licensee must comply with under the conditions of their licence. This obligation would only commence once a code manager is appointed for a relevant code.
- 4.27. We also propose to include a similar obligation in codes, when a code manager is appointed, in order to have effect for non-licensed code parties.
- 4.28. Drafting for the proposed licence and code provisions will be consulted on it due course.

⁶⁴ This was introduced as part of the Switching Programme which established the REC. We consulted on it in our October 2018 consultation: [Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications | Ofgem](#). An example of this condition can be found at standard licence conditions 11.13 to 11.15 in the electricity supply licence.

⁶⁵ We will review the SCR process as part of our work to implement these reforms.

5. Code governance arrangements

Section summary

This section sets out proposals related to the implementation of code reform into the code governance arrangements. It includes our preferred approach to constituting Stakeholder Advisory Forums. To support an effective transition to the new governance regime, we propose to review the code objectives, and introduce a code modification prioritisation process. We also propose to develop a revised code modification process, in line with the roles and responsibilities introduced by the reforms, with support from a workgroup of industry experts.

Questions

Q12. Do you agree with our preferred option for how a Stakeholder Advisory Forum should be constituted?

Q13. What are your views on i) a requirement to assess the greenhouse gas impact of code modifications with updated guidance, or, ii) introducing a 'net zero' code objective?

Q14. Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

Stakeholder Advisory Forum (SAF)

- 5.1. Code reform introduces licensed code managers, who will be responsible for the governance of designated industry codes. Their role will include recommending code changes to Ofgem. It will be essential under these new arrangements that stakeholders' views are heard and understood, and that there are clear and accessible routes for affected stakeholders to inform code managers recommendations.
- 5.2. In the July 2021 consultation,⁶⁶ we proposed that code managers would be required to establish SAFs for their code and consult with this forum ahead of making certain decisions. We also set out our expectation that:
 - the advice provided by the SAF would not be binding but the code manager would be required to give it due regard

⁶⁶ [Design and Delivery of the Energy Code Reform: consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/design-and-delivery-of-the-energy-code-reform).

- the SAF would include a range of stakeholders, including non-code parties and representatives of classes of code parties that are impacted by the code manager's decisions
 - the SAF should provide an opportunity for discussion and debate on code modification proposals, and that this would inform the code manager's assessments.
- 5.3. The April 2022 government response confirmed our intention to require code managers to establish SAFs, with the details being defined in code manager licences and in codes. We indicated that SAFs would provide a strong role for industry participants in advising, informing and supporting code managers. In addition, we set out our expectation that groups representing the consumer voice would be members of relevant SAFs.⁶⁷
- 5.4. In further developing the role of SAFs, we note that some codes have sub-committees that carry out activities under the relevant code. Where sub-committees exist to carry out specialist functions, we will review these to ensure that appropriate arrangements are established under the new framework.

Call for Input and stakeholder workshops

- 5.5. In our Call for Input in December 2022,⁶⁸ we sought stakeholder views on options for constituting the SAF, particularly its membership and securing appropriate representation. Responses focused on the importance of ensuring that individuals with the right level of expertise would attend and contribute to the SAF. The inclusion of smaller industry parties, consumer representatives and independent experts was particularly supported.
- 5.6. There was some support for SAFs to be an open forum, as it would allow views from a wider range of stakeholders to be heard. Contrastingly, some respondents expressed concern that an open forum could allow participants who do not have appropriate knowledge or exposure to commercial risk to have undue influence. There was also some support for constituency-based representation. Another suggested approach was to establish SAF with a regular group of attendees that could be joined by others flexibly, as required.
- 5.7. Taking this feedback into account, we set out three possible options for constituting the SAFs at our stakeholder workshops in June 2023 and asked

⁶⁷ In the current arrangements the role of Citizens Advice and/or Consumer Scotland is not aligned but this can include code panel membership and voting on modifications.

⁶⁸ [Energy Code Governance Reform | Ofgem](#)

participants for their views on each of the options. For each of these options we intend that the constitution of a SAF would enable consumer advocates to participate:

- **Option 1: open forum that any stakeholder could attend, where participants would not be required to act impartially.** This approach could allow a wider membership and fresh perspectives to be introduced to the code modification process and may benefit less well-resourced parties who could engage only when they choose to. Some attendees agreed with this view, with others commenting that with no requirement to be impartial this could be the best way of understanding the range of stakeholder perspectives. However, other comments raised the risk of low turnout, lack of ability to build institutional memory and expertise, and that this option would lead to commercial views influencing outcomes, for example larger participants would be more likely to be able to resource attendance.
- **Option 2: fixed membership of constituency-based representation.** Under this option, a fixed number of seats of industry representatives would attend and represent the views of their constituents. There could be a 'pool' of SAF members who could attend depending on the modification. These SAF representatives would not be required to act impartially. There would also be the possibility to include additional independent members. This option was seen by some attendees as a mechanism to ensure all parties would be represented, particularly smaller ones. Others were concerned it may lead to the views of constituents not being accurately represented, for example if representatives do not engage with their constituents or if constituents' views differ. There were also concerns around how SAF members could resource their participation, if the role involved actively engaging with constituents in order to form a collective viewpoint.
- **Option 3: fixed membership of stakeholders and independent parties acting impartially.** Supportive comments for this option included that impartiality requirements work well in existing codes, and it would encourage membership of experts. Other comments included that impacted stakeholders need to have the ability to attend meetings and have their voices heard. Another comment suggested that members knowledge and understanding needs to be up to date. Others questioned whether impartiality requirements are realistic, and whether an impartial SAF risks duplicating the role of the independent code manager. An alternative view suggested that the risk of

duplication is low because stakeholders experiences and viewpoints are different from the code manager.

- 5.8. Participants in the workshops were also asked whether the SAF should vote on code modifications to provide a majority SAF-view. Supportive comments focused on this being the best way for enabling stakeholders to record a preference and have it considered, and would increase stakeholders' willingness to participate in SAF. Other comments did not support a voting SAF, because individual views that go against the majority may not then be considered, and there were concerns that parties may not be fairly and proportionately represented.
- 5.9. There was also some support for an independent SAF Chair, with comments that it would ensure fairness and impartiality and secure the trust of SAF participants. However, others questioned whether an independent SAF Chair would duplicate the role of the independent code manager.

Options analysis and our preferred option

- 5.10. Establishing a well-constituted and effective SAF will be key to the effective operation of the codes under the new arrangements, particularly the code modification process. The role of SAF in the code modification process will be to support and guide code managers in forming robust recommendations to Ofgem⁶⁹ that are based on clear and reasoned evidence, against the relevant code objectives, having evaluated a range of stakeholder views. We expect the main features of the SAF will include:
- sharing knowledge and experience with the code manager, making sure the views of impacted parties are taken into account, and enabling the code manager to better understand these views
 - supporting and assisting the code manager in making decisions, including by challenging and questioning their approach and providing advice or views on the decision the code manager proposes to make in the process
 - providing assessment of proposed change and evaluating whether proposed modifications better facilitate the relevant code objectives.
- 5.11. To deliver these activities, and taking account of comments of workshop attendees, we have further considered and developed the three options presented above. We set out our views below. Our preferred approach is option 3:

⁶⁹ Or, in making decisions on self-governance modifications.

- **Option 1: open forum.** We agree with the concerns raised by workshop attendees that there is a risk of inconsistent stakeholder attendance, and that this approach may allow more vocal parties to dominate the discussion. We consider this could hinder the accountability and effectiveness of SAF and may not deliver robust reasoning against the code objectives on modification proposals. It is also possible that there may be other solutions that could deliver the same range of feedback as an open forum, for example, digital engagement platforms which would be more accessible to less well-resourced parties.
- **Option 2: constituency-based representation.** Having a fixed membership would provide better institutional memory and ensure consistent attendance for SAF. We consider this option would allow the code manager to have a clear view of different stakeholder viewpoints. However, we consider constituency views could equally be identified via responses to consultations. We also agree with workshop attendees who felt it may lead to the views of constituents not being accurately represented as these may differ among a constituency. We also share concerns around how SAF members could resource their participation if the role involved actively engaging with constituents in order to form a collective viewpoint.
- **Option 3: fixed/impartial membership.** This model would build on existing panel arrangements in some codes of having a fixed membership of impartial code party representatives, plus the inclusion of paid independent members.⁷⁰ To allow a wider range of stakeholders to attend, we also propose there would be a wider pool of members, which could include, for example, academics and experts, who would join when needed.⁷¹ We expect that the requirement to have impartial code party representatives would still allow the perspectives of constituencies to be reflected in any discussion, as with the current code panel arrangements. At the same time, the inclusion of impartial party representatives and independent members should deliver a valuable and respected source of advice, informing the recommendations and decisions of the code manager. Like Option 2, a fixed membership would allow for better institutional memory and expertise, as well as ensuring consistent

⁷⁰ Similar to the approach used for the Balancing and Settlement Code (BSC) Panel.

⁷¹ We have further developed 'option 3' following the stakeholder workshops, to include the proposal for an additional pool of members.

representation. This is our preferred option. We consider that it incorporates the benefits of existing arrangements, and will be best able to:

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

5.12. We welcome stakeholder views on the options and our preferred approach set out above. We will further consider potential arrangements for independent SAF chairs, and for voting arrangements, alongside our development of a revised code modification process as set out below.

Change to support transition

5.13. To implement code reform, consequential modifications to existing electricity and gas licences and codes will be needed. These modifications will ensure that the new roles and responsibilities created by code governance reform, are fully reflected in the code framework. We propose to consider where it may be beneficial to harmonise the governance arrangements across the codes.

5.14. We will identify and consult on all licence and code modifications required to implement the new framework. Identifying these modifications will be an on-going process as our policy develops and we will work closely with stakeholders through the process.

Cooperation with code reform

5.15. Ofgem has approved⁷² a change to the Code Administration Code of Practice (CACoP) that introduces a new principle that code administrators will provide support to the implementation of code reform.⁷³ We welcome this principle, which

⁷² This decision letter is available on our website: [Ofgem](#)

⁷³ Principle 16: Code administrators shall provide support on code reform.

is underpinned by licence conditions,⁷⁴ as we consider that it will be necessary for us to work closely with code administrators throughout this process.

- 5.16. We may also consider using our transitional powers to make time-limited temporary modifications to licences and codes to require relevant parties to support and/or co-operate with the code reform implementation process, however, we are not proposing to do so at this stage.

Code modification processes

- 5.17. Below we consider proposals for potential changes that could be implemented ahead of a code manager being appointed, including a review of the code objectives, and harmonising prioritisation processes for code modifications. We expect that implementing these changes into existing governance processes would support the transition to the new governance arrangements and harmonise the governance of codes.

Code objectives

- 5.18. Each code has its own applicable objectives⁷⁵ that are contained in relevant licence conditions. The objectives describe the overarching purpose of the code and provide the framework for evaluating any proposed modifications to the code. Common themes in code objectives include efficiency in network operation, facilitation of competition between users, development of a coordinated and economic network infrastructure, and the efficient discharge of the licensee's licence obligations. For those codes that include charging methodologies, charging objectives are included.
- 5.19. Our initial review of code objectives has focused on two considerations:
- should changes be made to the code objectives to better align with changes brought in by the Energy Act 2023 ('the Act')?
 - should the code objectives be more closely aligned across codes?

⁷⁴ Provisions in the gas transporter licence SLC 9 and SSC A11, gas supplier licence SLC 11, electricity supply licence SLC 11B, distribution licence SLCs 21 and 22, and electricity transmission licence SLCs B12, C3, C10 and C14 require code administrators to have regard to and where relevant be consistent with the principles contained in the code of practice. Condition 22 in the smart meter communication licence requires the SEC include terms requiring the code administrator to act in accordance with any code of practice approved by the Authority.

⁷⁵ For some codes the objectives are referred to as the 'Relevant Objectives'. We use these phrases interchangeably.

Net zero

- 5.20. The energy code reforms brought in by the Act will amend existing code governance arrangements to help ensure the codes can respond to the significantly changing energy sector, enabling change to be delivered more efficiently and effectively in the interests of consumers. Above we set out our proposed approach to implementing our new duty to prepare and publish an annual Strategic Direction Statement (SDS). The Act also further defines what is included within the meaning of “interests of existing and future consumers”, in so far as this phrase relates to the Secretary of State and GEMA’s principal objective.
- 5.21. Our principal objective is to exercise our functions in a way that protects the interests of existing and future consumers.⁷⁶ The consumer interests that Ofgem has regard to now include the Secretary of State’s compliance with its duties under the Climate Change Act 2008, particularly the net zero target for 2050.⁷⁷

Stakeholder workshops

- 5.22. At our June 2023 workshops, we asked for views on whether the code objectives should be more aligned with Ofgem’s new net zero statutory duty.
- 5.23. Some attendees supported aligning the code objectives with the achievement of net zero by 2050 target, and there was a suggestion that it would be difficult to make progress on this target without it being embedded in the code objectives. Another attendee suggested that while net zero should be considered in decision making, it should not be part of the code objectives.
- 5.24. When evaluating whether a proposed modification will better facilitate the code objectives, most codes require panels and industry stakeholders to make an assessment of the impact a code modification proposal may have on greenhouse gas (GHG) emissions in the environment, where likely to be material.⁷⁸ Such assessment must be carried out in accordance with guidance published by Ofgem.⁷⁹

⁷⁶ As set out in section 4AA of the Gas Act 1986 and section 3A of the Electricity Act 1989.

⁷⁷ Section 202 of the Energy Act 2023 replaces the words “the reduction of electricity-supply emissions of targeted greenhouse gases” where they appear in Section 4AA(1A)(b) of the Gas Act 1986 and Section 3A(1A)(a) of the Electricity Act 1989 with “the Secretary of State’s compliance with the duties in Sections 1 and 4(1)(b) of the Climate Change Act 2008 (net zero target and five-year carbon budgets).”

⁷⁸ For example, SLC C1(6)(b)(ivB) of the Electricity Transmission licence requires “for the evaluation required under paragraph 6(b)(iii) (and, if applicable, paragraph 6(b)(iv)) in respect of the applicable CUSC objective(s) to include, where that impact is likely to be material, an assessment of the quantifiable impact of the proposal on greenhouse gas emissions to be conducted in accordance with such guidance (on the treatment of carbon costs and evaluation of the greenhouse gas emissions) as may be issued by the Authority from time to time.”

⁷⁹ [Guidance - Treatment of carbon costs under Code Objectives \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/guidance/treatment-carbon-costs-code-objectives).

5.25. Given the change to our statutory duties, specifically to support the net zero duty of the Secretary of State, as well as our new duty to prepare and publish an SDS (containing a strategic assessment of government policies that require modifications to the designated industry codes), we have considered whether amendments to the code objectives are needed.

5.26. We have considered two options:

- **Option 1: update and republish existing guidance on assessing GHG emissions.** This would improve existing arrangements by delivering up to date guidance, and we anticipate that there could be a licence requirement on code managers to produce this assessment. Maintaining the 'materiality' requirement would mean that this assessment would only be provided where the impacts are material.
- **Option 2: introduce a code objective to support the delivery of the net zero target for 2050 and five-year carbon budgets.** A new objective in all codes would better align with our statutory duty and would require modification proposals to be assessed against this objective, alongside the other objectives of each code. It would require the code manager, and industry stakeholders, to consider how the code would need to change to help support the delivery of the net zero target for 2050 and five-year carbon budgets. Assessment against this objective could potentially be supported by Ofgem guidance.

5.27. To help inform our approach, we welcome views from stakeholders on the strengths and challenges associated with each option identified above.

Alignment of code objectives

5.28. Ahead of appointing code managers, we also see benefits in reviewing the existing code objectives to identify whether they could be more aligned across codes. At present there is some consistency in objectives, for example all codes include an objective on competition. However, there are differences in the objectives across the codes which can make the process more complex for proposers seeking to raise modifications, particularly when proposing changes that can impact more than one code.

Stakeholder workshops

5.29. We asked for views on whether the objectives of each code should be more closely aligned with each other, to reduce complexity and improve the process for cross-cutting change. Feedback from some attendees supported more alignment

of the code objectives, suggesting this would simplify navigating a complex code landscape. Other attendees cautioned that the diversity of each of the codes, and the commercial and technical aspects of the code objectives, need to be taken into consideration. There was also concern that alignment of the code objectives could lead to codes having a long list of objectives.

- 5.30. We consider that better alignment of code objectives, where beneficial, could help simplify and improve how code modification proposals are raised and assessed, particularly where there are cross-code impacts. We will consider how best to take forward this proposal as part of our development of an updated code modification process (see below), while also considering the potential impact of our code consolidation proposals in Section 3.

Prioritisation of code modifications

- 5.31. Under existing code modification processes, some code panels are able to determine the priority of a modification proposal submitted into the modification process.⁸⁰ This allows industry to focus their resources on modifications that are considered higher priority based on the applicable prioritisation criteria. Ofgem is usually able to change the determination of the code panel.⁸¹
- 5.32. In the July 2021 consultation, we proposed that code managers would prioritise code modification proposals as they are proposed, developed, and implemented, to ensure there is a suitable focus on delivering strategic change.
- 5.33. In the 2022 government response, we noted that our new SDS would help code managers to prioritise code changes so that critical change could be delivered faster, whilst maintaining the safety, reliability, and economic operation of the energy system, networks and services. We also recognised that there could be code modification proposals that are not directly related to delivering change in line with the strategic direction but could nonetheless be considered high priority.

Stakeholder workshops

- 5.34. At our June 2023 workshops, we asked stakeholders for their views on introducing prioritisation of code modification proposals and how the prioritisation criteria should be designed. The views of attendees who commented were broadly

⁸⁰ The BSC, CUSC, Grid Code Panels and REC Code Manager (subject to the REC Change Panel's ability to overrule their determination under defined circumstances) can determine the priority of a modification proposal based on its complexity, importance and urgency. The STC panel and SEC change sub-committee can also determine the priority of each modification proposal, but the codes do not set out a prioritisation criteria to be applied.

⁸¹ The SEC does not include the ability for the Authority to overrule a determination on the priority of a code modification.

in support of the code manager being able to prioritise code modification proposals. Some feedback from attendees highlighted the importance of the code manager having the right resources, systems and processes in place to prioritise effectively. A range of views were also provided on how prioritisation criteria could be designed. There was some support for inclusion of criteria similar to those in the Retail Energy Code (REC),⁸² and for prioritising code modification proposals that align with the strategic direction statement. Some participants also suggested that smaller and easier to implement modification proposals should be given a place in prioritisation criteria or it risks parties disengaging.

Introducing and aligning prioritisation criteria across codes

- 5.35. Ahead of appointing code managers, we see benefit in harmonising the ability of code panels to prioritise code modification proposals across all codes and introducing a consistent set of prioritisation criteria.
- 5.36. We expect that code managers will be resourced to deliver effective prioritisation. In the meantime, we think that aligning the ability for code panels to prioritise change now, across the codes, would promote more efficient governance of code arrangements, and support industry's ability to dedicate time and resource to focus on higher priority modifications. We anticipate this harmonisation would also help facilitate efficient cross code change.
- 5.37. Our initial view is that aligning prioritisation criteria in the current governance arrangements would support the introduction of the SDS and facilitate a smoother transition for incoming code managers.
- 5.38. We welcome stakeholder views on our proposal to implement standard prioritisation criteria and processes across codes. We expect to further develop our thinking on this as part of our proposed modification process workgroup (set out below).

Future code modification process

- 5.39. Requirements for the current code modification processes are contained in relevant licence conditions. The licence conditions also provide for the role of the code administrator, who must have regard to (and where relevant, be consistent with) the principles contained in the CACoP.⁸³

⁸² For example, the complexity, importance relative to other ongoing modification proposals and time-sensitivity of the code modification proposal – REC Schedule 5, Change Management, paragraph 9.9 (a).

⁸³ [Code Administration Code of Practice Version 5.1 | Ofgem.](#)

- 5.40. The CACoP includes a high-level common modification process. Each code contains its own detailed modification process and, while there are similarities across the codes (in line with the licence requirements and the CACoP), differences exist between the detailed arrangements.
- 5.41. Code governance reform will mean the existing processes need to be modified to reflect new roles and responsibilities. In the July 2021 consultation,⁸⁴ we explained that our aim is to make the modification process accessible to a wider range of stakeholders, such as new market entrants, consumer groups, academics, and other non-code parties. We also recognised that having different modification processes across the codes adds complexity for code users and is a potential barrier to engagement, particularly for new and smaller participants.
- 5.42. In June 2023 we held stakeholder workshops on code governance reform, where we discussed options on how Ofgem can best deliver an updated code modification process. We set out two options:
- Ofgem approved document prescribing a **high level modification process**, including a set of principles and key stages for all code managers to align with (similar to the CACoP). Existing legal text in codes would be updated in line with this guidance, by Ofgem using transitional powers when introducing the role of the code manager. This option would allow code managers to further develop the detail of their modification process specifically for their code. However, it may embed existing differences that continue to prevent effective co-ordination and/or engagement.
 - New **template legal text** to align, as far as possible, a standard end-to-end modification process across all codes. Ofgem would implement new code modification sections into the codes using transitional powers, rather than applying incremental changes to update the existing legal text. This option may deliver a more coherent and consistent process but risks being inflexible.
- 5.43. Some feedback from attendees supported a high-level standard modification process, suggesting this flexibility would allow the needs of code parties to be reflected, while others felt that complete standardisation may make the process easier to engage with. It was also noted that codes have different content and stakeholders, so full alignment (or 'one size fits all') may not be possible. Some supported replacing existing processes with standardised legal text as they saw this as allowing for more efficient cross code change. It was also noted that it

⁸⁴ [Design and Delivery of the Energy Code Reform: consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/design-and-delivery-of-the-energy-code-reform).

could help provide consistency across codes when monitoring code manager performance.

Developing a new modification process

- 5.44. Our reforms will result in significant changes to existing modification processes to reflect new roles and responsibilities. These changes provide an opportunity to identify what works well in existing arrangements and what could be improved across codes to ensure that efficient governance is in place.
- 5.45. We are not at this time consulting on our proposed approach, in line with the options discussed above. We propose to work closely with industry stakeholders who have expertise in the existing processes over the coming months, to begin to identify what an updated modification process should look like. Alongside this we will consider the extent to which Ofgem should aim to develop new, consistent code provisions, to ensure that the code modification processes are standardised across the codes.
- 5.46. We propose to establish a workgroup made up of experts in the modification processes in codes, chaired by Ofgem (the Modification Process Workgroup).
- 5.47. The workgroup's views and expertise will feed into our assessment of current arrangements, including what works well, what can be improved, and what existing arrangements will need to change. The workgroup will support us in developing the detailed new roles and responsibilities, including those of the SAF.
- 5.48. Alongside this consultation, we have published a request for expressions of interest to join this workgroup and included a draft Terms of Reference.⁸⁵

⁸⁵ Available at [Energy Code Reform | Ofgem](#)

6. Transition

Section summary

This section sets out our proposed approach to transitioning the gas and electricity codes to the new governance model. It presents and seeks views on our proposal to adopt a phased approach to transition, and the order in which the codes should transition to the new governance model.

Questions

Q15. Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?

Q16. Do you identify any strategic or operational considerations that might inform the transition sequence?

Q17. What are your views on our proposed transition sequencing?

Q18. Do you have any other comments on how Ofgem should approach the implementation and transition process?

Transitional powers and the code transition process

6.1. The Energy Act 2023 (the 'Act') granted Ofgem transitional powers for a period of seven years, from the date of Royal Assent, to implement a new governance framework for the gas and electricity industry codes. We aim to complete the process as quickly as possible, however we note that:

- secondary legislation and code manager licence conditions are required for us to be able to select and licence code managers. Ofgem will consult on these jointly with the Department for Energy and Net Zero (DESNZ) during 2024-25. We currently anticipate that secondary legislation and licence conditions will be in place by the end of 2025
- implementing a new institutional framework for the energy codes will involve a number of statutory processes, including consultations, and potentially also transfer schemes or pension regulations. Adequate time will be required for Ofgem to undertake these processes
- the transition process is likely to be more complex for some codes than others, therefore requiring more time and resource. For example, where code

consolidation is taking place,⁸⁶ and/or where a code manager is selected via a competitive process compared to non-competitive selection.⁸⁷

6.2. Our overall aim is to deliver the transition to the new governance regime as quickly and effectively as possible, while also minimising disruption to the work of the codes. This section sets out our proposals on how we intend to approach the code reform transition process.

Approach to transition

6.3. We have identified four potential approaches to implementing the new governance arrangements into all codes in scope of reform.⁸⁸ We set out our views on each of these options below:

- **'Big bang' approach:** this approach would bring the new governance arrangements into effect for all codes at the same time, ensuring consistency across all code governance processes. However, the additional complexity inherent in this approach would likely introduce greater risk, be challenging to coordinate, and prevent the reform package from being implemented more quickly where it is possible to do so. It is also likely to be resource intensive and would not allow for efficiencies to be gained through learning.
- **Concurrent processes:** under this approach we would start the transition process for all codes simultaneously, but due to differing requirements (eg consolidation vs no consolidation), we expect the processes would complete at different times. This would allow more flexibility than a 'big bang' approach, however it would likely be resource intensive at the outset and may be more challenging for stakeholders to monitor progress.
- **Phased approach:** under this approach we would allocate each code to one of two or three transition phases, with resource dedicated to each phase in turn (with some overlap between activities at the end of one phase and the start of the next). This would allow for work to be undertaken concurrently, where it is beneficial to do so, while reducing the overall complexity of the approach and ensuring that it does not become overly burdensome to industry stakeholders. It would also allow us to learn lessons and improve the efficiency of our processes in each subsequent phase, as well as minimising risk to ongoing code business.

⁸⁶ See proposals in Section 3.

⁸⁷ Code manager selection process are provided for in the Energy Act 2023 sections 187-9.

⁸⁸ See Section 2.

- **Fully sequential:** this approach would implement the new arrangements one by one, with the process of implementing the reforms in one code largely finishing before work on the next begins. This would allow opportunity to learn and improve and is likely to be less resource intensive than other approaches. However, it would also be likely to result in a longer overall timeframe for implementing code governance reform, which would delay the benefits of reform, and introduce the risk that the transition process might not be completed within the seven-year time frame that our transitional powers are available.

6.4. Our preferred option is to adopt a **phased approach**. We believe that this will best enable us to meet our aim of transitioning to the new code governance regime efficiently while also minimising disruption. We welcome stakeholder views on our proposal to adopt this approach.

Transition sequencing considerations

- 6.5. A phased approach will require us to determine the order in which the codes are transitioned to the new governance arrangements. We propose to consider a combination of strategic and operational factors which will inform prioritisation and timing.
- 6.6. Below, we set out our initial views on what consideration of these factors would likely entail. We welcome stakeholder input to help us develop our thinking on what may be the most relevant considerations in determining the optimum transition sequence, and how such factors may apply to individual codes.

Strategic considerations

- 6.7. We believe that delivering code reform and commencing our new strategic role is a priority.⁸⁹ When determining the transition sequencing, we propose to consider how that might help to support the delivery of both Ofgem and government policy priorities. For example, where the delivery of a specific policy may benefit from the enhanced roles played by licensed code managers and Ofgem under the Act, then it may be beneficial to prioritise transitioning relevant codes as quickly as possible.
- 6.8. We also recognise that the introduction of the new governance framework could impact the delivery of significant code changes that are already in progress, and

⁸⁹ Ofgem's [Forward Work Programme](#) identifies energy code reform as a longer-term strategic priority.

this will therefore be a consideration for how the transition is both managed and timed. Examples of significant policy projects taking place over the next few years which will impact codes include Market-wide Half Hourly Settlement (MHHS),⁹⁰ the establishment of the Future System Operator (FSO)⁹¹ and, over a longer timeframe, implementing the outcome of the Review of Electricity Markets (REMA).⁹² We will consider wider policy interactions when making our final decision on transition sequencing, and we welcome stakeholder views on strategic considerations that we should consider taking into account.

Operational considerations

- 6.9. At an operational level, we propose to maximise opportunities to deliver code reform quickly where possible, while minimising disruption to ongoing code processes. We propose to be mindful of the demands placed on the resources of code administrators, industry participants and Ofgem.
- 6.10. Examples of relevant factors are below, and we welcome stakeholder views on whether there are additional factors that we should consider:
- the anticipated time and complexity of any code consolidation process
 - the anticipated time and complexity of the code manager selection and set up process, including the potential need for transfer schemes and pension regulations
 - the potential constraints posed by current governance arrangements, such as the nature and duration of relevant contracts
 - impacts on resources of relevant stakeholders, eg where multiple transition processes are being undertaken at the same time.

Proposed approach and timings

- 6.11. In line with the considerations above, our initial proposal is to focus on two codes at a time, in a sequence of three phases (noting that we anticipate some overlap between the end of one phase and the start of the next), as proposed in Figure 1, below. An alternative approach could be to divide the transition process into just two phases.

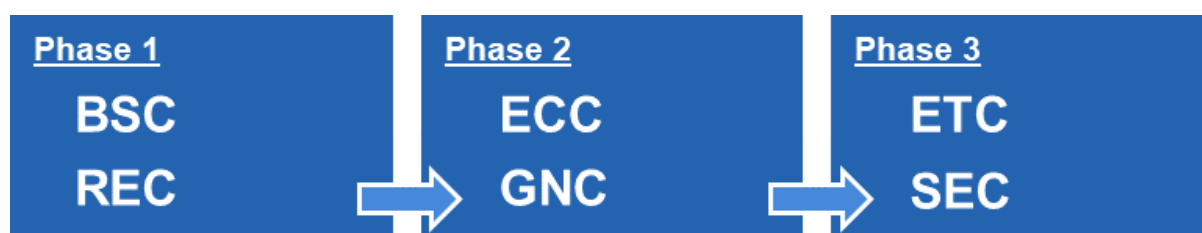
⁹⁰ Further information about MHHS is available on the [MHHS project website](#).

⁹¹ See Ofgem's [consultation on the FSO's regulatory framework](#).

⁹² Further information about REMA: [DESNZ's REMA press release](#).

- 6.12. The approach set out in this section is in line with our proposals on code consolidation, as described in Section 3, which – if implemented following consultation – would result in a total of six codes under the new arrangements. The sequencing described below is therefore indicative and subject to our final decisions on code consolidation, as well as our consideration of stakeholder views on the proposals below.
- 6.13. The names of consolidated codes would be determined in due course, however we use the following acronyms for the purpose of this section:
- **Gas network code (GNC):** UNC and IGT UNC
 - **Electricity commercial code (ECC):** CUSC and DCUSA
 - **Electricity technical code (ETC):** Grid Code, Distribution Code, STC and SQSS

Figure 1 – indicative transition sequence



- 6.14. We welcome views on this proposed sequence, particularly in reference to any strategic or operational considerations that it may be beneficial for us to consider before finalising our thinking. We set out our initial thinking below.

Phase 1: BSC & REC

- 6.15. We propose to prioritise the transition of the BSC and REC. A key consideration is that we anticipate we would be able to transition these codes at a faster pace because we are not proposing to consolidate either code, meaning that it will be a less complex process to embed the new arrangements. There may also be synergies in completing relevant processes concurrently, and we would be able to learn lessons ahead of subsequent transition processes, potentially leading to efficiencies.
- 6.16. We also note that the REC is the most recently established code, and its governance arrangements were developed in anticipation of code governance reform. There are therefore similarities between the REC arrangements and code reform, such as the concept of a 'code manager'. However, as code reform policy

was not finalised when REC was created, the arrangements are not fully aligned. It may therefore be efficient to focus on establishing the enduring arrangements for REC quickly, rather than further embedding the existing arrangements established at REC's inception.⁹³

- 6.17. Finally we note that there are wider strategic priorities linked to these two codes, such as MHHS and REMA. The implementation of REMA in particular may have significant, cross-cutting implications, so we believe that it would be an asset to have licensed code managers in place to facilitate the introduction of associated code changes.

Phase 2: GNC & ECC

- 6.18. Based on our proposals in Section 3, we propose to prioritise two consolidation exercises in the second phase. Our initial assessment is that it may be beneficial to prioritise the unified GNC and unified ECC ahead of the unified ETC, but we welcome views on this proposal.
- 6.19. We believe there are strategic benefits to delivering code consolidation as soon as possible, and that these two consolidated codes (if implemented) would facilitate delivery of wider policy priorities. For the ECC, we expect that having the new governance arrangements in place would help to support connections reform⁹⁴ and facilitate flexibility.⁹⁵ For the GNC, it could be beneficial to have a consolidated code and code manager in place in anticipation of future developments related to hydrogen.⁹⁶
- 6.20. From an operational perspective, we note that consolidating codes will require additional time and resource. It will be beneficial to commence this exercise as soon as possible, however, for the reasons set out under Phase 1 above, we think there are benefits in prioritising two non-consolidated codes first (primarily speed, learning and potential synergies).
- 6.21. Finally, we are mindful of the potential resource burden and/or disruption for stakeholders that could be associated with pursuing both of the proposed electricity code consolidations at the same time (see below).

⁹³ Existing REC arrangements differ from the proposed governance reforms in a number of ways, for example, although there is an existing code manger, they are not licensed.

⁹⁴ Ofgem and DESNZ's recently published [Connections Action Plan](#).

⁹⁵ Ofgem's call for input on [The Future of Distributed Flexibility](#) proposed that a common vision for distributed flexibility is needed and sought views on what that could look like.

⁹⁶ Ofgem's recent [decision on frameworks for future for future systems and network regulation](#).

Phase 3: SEC & ETC

- 6.22. We propose to transition ETC and the SEC in Phase 3. Although the SEC will not be consolidated (therefore similar rationale for the prioritisation of BSC and REC might apply), we recognise that SEC's arrangements are still in their ramp-up stage and that the government remains closely involved in its governance. Our initial view is that preparing to transition SEC to the new governance arrangements in 2025-6 may be premature or unnecessarily disruptive. We also note the close interactions between SEC and the Data Communications Company (DCC) licensing arrangements, which form part of an ongoing review of the overarching regulatory framework relative to the DCC, in preparation for the expiry of the current DCC licence in 2025.⁹⁷
- 6.23. In respect of the ETC, the four codes that we have proposed to consolidate generally have a lower number and frequency of code changes,⁹⁸ compared to the more commercially focussed electricity codes (CUSC and DCUSA). For this reason, we anticipate that the appointment of code managers for the proposed ECC and GNC first would be likely to have a larger near-term impact on the progression of beneficial code change, compared to the ETC. Staggering the electricity codes in this manner may also help to minimise any potential resource constraints or disruption for industry participants who may be impacted by both the technical and commercial electricity codes.
- 6.24. We welcome stakeholder views on our initial proposals. We expect to determine our transition approach following this consultation, to provide industry stakeholders with a clearer indication of when code reform will be implemented for each code, and enable existing code bodies and panels to better plan their activities. Following our decisions on code consolidation and transition approach, we will work closely with impacted stakeholders to prepare for and implement the reforms.

High level implementation plan

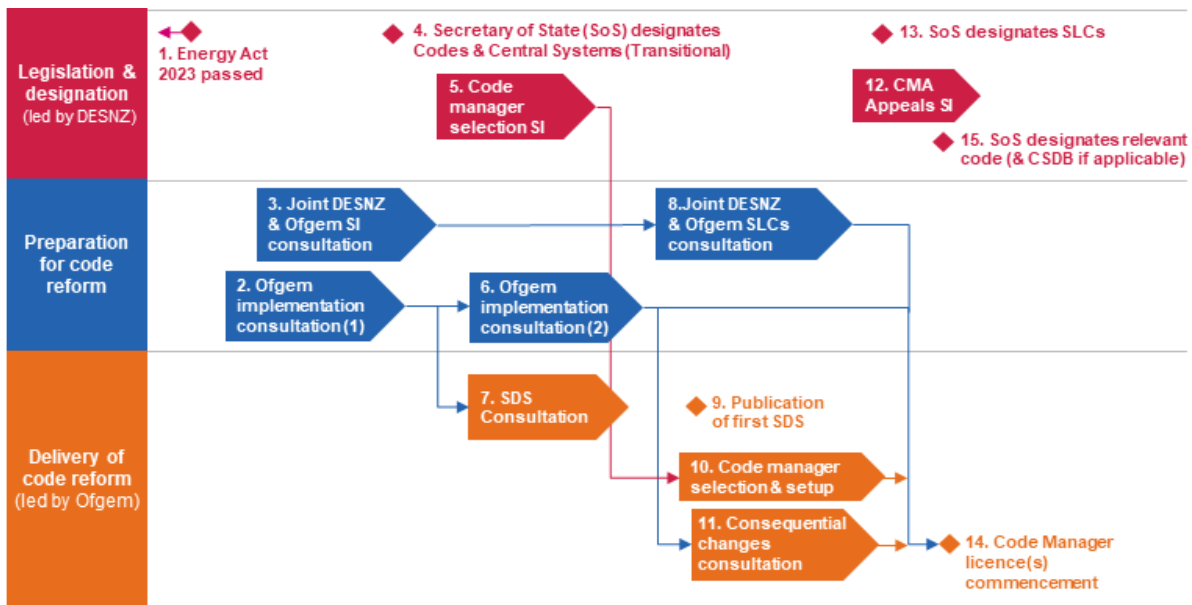
- 6.25. Below we set out an overview of the anticipated stages for code reform implementation, following passage of the Act.

⁹⁷ See the recent [Ofgem decision](#) on the status of the DCC framework review.

⁹⁸ The draft impact assessment on code consolidation published alongside this consultation contains data on code modifications.

6.26. Figure 2 shows key implementation activities over approximately a two-year period. Delivery activities shown here would be i) repeated annually thereafter, for Ofgem’s SDS consultation and publication,⁹⁹ and ii) repeated for each subsequent phase of transition (as described above), in the case of code manager selection and set-up, and the consequential changes required to enable the code manager to commence their role.¹⁰⁰

Figure 2 – high level implementation plan



6.27. We welcome any comments from stakeholders in respect of how Ofgem should approach the implementation and transition process for code reform.

⁹⁹ Chevrons numbered 7 and 9.

¹⁰⁰ Chevrons numbered 10, 11, 14 and 15.

Appendices

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Appendix 1 – Consultation questions

Section 2

Q1. Do you agree that we should recommend to the Secretary of State that the 11 industry codes listed (including the SQSS) should be designated as “qualifying documents” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Q2. Do you agree that we should recommend to the Secretary of State that the 5 central systems listed (including the Central Switching Service) should be designated as “qualifying central systems” for the purposes of using our transitional powers in the Energy Act 2023 to deliver energy code reform?

Section 3

Q3. Do you agree with the monetised costs and benefits set out in the accompanying draft impact assessment (ie the quantitative analysis)? Please specify if you think there is any further evidence that we should consider.

Q4. Do you agree with the hard-to-monetise costs and benefits set out in the draft impact assessment (ie the qualitative analysis)? Please specify if you think there is any further evidence that we should consider.

Q5. Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?

Q6. Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?

Q7. Do you agree with our preferred option to consolidate the UNC and IGTUNC to form a new unified gas network code?

Q8. Do you agree with our proposals to rationalise the identified code provisions as part of any consolidation exercise?

Section 4

Q9. Do you agree with our proposal to publish the first SDS for all codes next year (before code managers are in place)?

Q10. Do you have views on the proposed SDS process?

Q11. Do you agree with our proposal that a principles-based standard condition for gas and electricity licensees would support the development and delivery of code modifications related to the SDS?

Section 5

Q12. Do you agree with our preferred option for how a Stakeholder Advisory Forum should be constituted?

Q13. What are your views on i) a requirement to assess the greenhouse gas impact of code modifications with updated guidance, or, ii) introducing a 'net zero' code objective?

Q14. Do you agree with our proposal to extend and harmonise the ability of code panels to prioritise the assessment of code modification proposals?

Section 6

Q15. Do you agree with our proposal to adopt a phased approach to transitioning codes to the new governance model?

Q16. Do you identify any strategic or operational considerations that might inform the transition sequence?

Q17. What are your views on our proposed transition sequencing?

Q18. Do you have any other comments on how Ofgem should approach the implementation and transition process?

Appendix 2 – Subsidiary documents

The following subsidiary documents have been published on Ofgem’s website alongside this consultation:

- Energy Code Reform: Code consolidation - Draft Impact Assessment
- Expressions of interest to join the Modification Process Workgroup
- Consultation response template

Appendix 3 - Glossary

Acronyms	Definition
BEIS	Department for Business, Energy, and Industrial Strategy
BSC	Balancing and Settlement Code
CACoP	Code Administration Code of Practice
CSDBs	Central System Delivery Bodies
CMA	Competition and Markets Authority
CSS	Central Switching Service
CUSC	Connection and Use of System Code
DCC	Smart Data Communications Company
DCUSA	Distribution Connection and Use of System Agreement
DESNZ	Department for Energy Security and Net Zero
DTS	Data Transfer Service
ECC	Unified Electricity Code, which is used when referring to a proposal to consolidate CUSC and DCUSA
ETC	Unified Electricity Technical Code, which is used when referring to a proposal to consolidate SQSS, STC, the Grid Code and the Distribution Code
FSO	Future System Operator. Named in the Energy Act 2023 as Independent System Operator and Planner (ISOP)
GEMA	Gas and Electricity Markets Authority
GHG	Greenhouse Gases
GNC	Unified Gas Network Code, which is used when referring to a proposal to consolidate UNC and IGT UNC
IGT UNC	Independent Gas Transporters Uniform Network Code
MHHS	Market-wide Half Hourly Settlement

NPV	Net Present Value is used to refer to summative values that weigh the transitional costs of consolidating the codes against the enduring benefits of reform
REC	Retail Energy Code
REMA	Review of Electricity Markets
SAF	Stakeholder Advisory Forum, a proposed body (or bodies) consisting of a range of stakeholders which will provide expert assessment of modifications to the code manager
SEC	Smart Energy Code
SDS	Strategic Direction Statement, which will set out our vision for how the codes should evolve on an annual basis
SCR	Significant code review, an existing way for Ofgem to influence the existing end-to-end code change process to modify industry codes
SPS	Strategy and Policy Statement, a document that can be designated by the Secretary of State under the Energy Act 2013 (after Parliamentary approval), which would set out the strategic priorities and policy outcomes for the government's energy policy
SPV	Special Purpose Vehicle
SQSS	Security and Quality of Supply Standard
STC	System Operator- Transmission Owner Code
UNC	Uniform Network Code

Appendix 4 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. ie a consultation.

4. With whom we will be sharing your personal data

We may share data with the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for up to 12 months after the project is closed, including subsequent projects or legal proceedings regarding a decision related to this consultation.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it

- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with third parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[Ofgem privacy promise](#)”.