

17th June 2024

Future System Operation
Ofgem
10 South Colonnade,
Canary Wharf,
London,
E14 4PU



Cadent Gas Limited’s representation to the Ofgem statutory consultation – establishing the Independent System Operator and Planner (ISOP) in GB industry codes 2024

This non-confidential consultation response is made on behalf of Cadent Gas Limited, a current code party to the Uniform Network Code (UNC), Retail Energy Code, and Smart Energy Code.

Overall, we are supportive of the proposal to formalise both the extent of the National Energy System Operator’s (NESO) rights and duties and other licensees’ interactions with the ISOP within industry codes. We also consider the proposed modifications to the UNC to broadly reflect the proposed outputs and expectations within the updated ISOP Roles Guidance subsidiary document.

There are some queries and key points that we think should be considered prior to the code modifications being enacted. We believe that these key points would facilitate a more effective and equitable implementation of the ISOP from day one.

1. It is proposed for the NESO to hold the right to vote in many of the electricity codes. In our view, possessing the ability to vote promotes stronger levels of engagement and builds understanding on the mechanics of the code that parties are asked to provide a vote upon. The consultation proposes for the NESO’s UNC panel membership to not include the ability to vote. This would create an unequal relationship between the NESO and the different gas and electricity codes and could promote the risk of the NESO having lower levels of engagement with the UNC.

Whilst we recognise other stakeholders’ concerns around the NESO potentially holding a ‘swing vote’, the consultation is clear, in that the NESO would not be viewed as a gas transporter (GT)

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or a shipper, but instead a new classification of UNC party. We think that the benefits of stronger engagement and having the ability to declare a position through the voting process outweigh the remote risk of the NESO casting swing votes.

2. We support the recommended GT licence and UNC modifications that would permit the NESO to propose code modifications, as we consider the ability to propose modifications to deliver similar benefits to those listed above.

However, broadening the scope of UNC parties able to propose code modifications may increase the cost burden on GTs, who currently fund the Joint Office of Gas Transporters as the UNC code administrator. Amending the UNC to create arrangements where the charges payable to the NESO are net of the costs that they create for GTs in administering their modifications would promote correct behaviours and ensure cost reflectivity. For instance, the NESO would need to consider the cost-benefit analysis of the modifications that they sought to propose

In any event, we consider it reasonable for there to be a provision within GTs' price control framework that allows the costs incurred in administering the UNC to be pass through and neutral to the networks.

3. In the support of achieving Net Zero, the GB gas networks continue to explore the use of alternative fuels such as biomethane, hydrogen blend, and 100% hydrogen. Presently, the UNC acts as the commercial framework for shippers' use of the transmission and distribution networks to transport methane.

We think that the requirements on the NTS and DNOs relating to the ISOP need to be explicit, in that they solely relate to methane. Cadent is a leading party in the work to design a market framework for hydrogen, and there is still uncertainty on whether the concepts of NTS and DNO systems will exist.

4. Finally, we note that Annex 3 of the main consultation document does not include reference to UNC. The annex lists both changes to be made to industry codes under Ofgem's Energy Act 2023 s.169 powers and identified changes that will be made by alternative forms of governance.

At a minimum, the changes to the UNC required to facilitate the day one implementation of the ISOP are not listed. Additionally, it is unclear whether Ofgem have identified changes to ancillary documents (such as UNC-related documents and/or the Data

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Services Contract) that are required for the ISOP to operate from day one. It is important that the introduction of the ISOP does not create a precedent where parties acceding to code receive obligations and duties due to intent, rather than being explicitly stated in the code.

We are committed to supporting Ofgem to introduce the NESO in a manner that delivers whole system planning in the best interests of consumers, industry, and the achievement of Net Zero. We would welcome the opportunity to discuss our response to this consultation with Ofgem in more detail.

Yours faithfully,

Edward Allard
Industry Codes Manager