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22 April 2024

Dear Code Governance Reform Team,

**Consultation on the Implementation of Energy Code Reform**

Thank you for the opportunity to respond to the Energy Code Reform implementation consultation published 30 January 2024<sup>1</sup>.

Interconnector Limited ("INT" or "we") is the owner and operator of the bi-directional natural gas pipeline, connecting GB with Belgium and wider European gas markets. INT is a strategic energy link for cross-border trade and security of supply. The pipeline provides 20 bcm/year of GB export capacity and 25.5 bcm/year of GB import capacity. When importing at full capacity, INT can supply over 25% of annual GB natural gas demand.

INT welcomes this consultation and agrees the current Energy Code governance framework must be reformed if it is to support the energy transition at the lowest cost for consumers. To be effective, this reform must happen at pace.

Key points INT wishes to highlight:

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<sup>1</sup> [https://www.ofgem.gov.uk/publications/energy-code-reform-implementation-consultation?utm\\_medium=email&utm\\_source=dotMailer&utm\\_campaign=Daily-Alert\\_30-01-2024&utm\\_content=Energy+code+reform%3a+implementation+consultation&dm\\_i=1QCB,8J14J,F31G13,ZA9MT,1](https://www.ofgem.gov.uk/publications/energy-code-reform-implementation-consultation?utm_medium=email&utm_source=dotMailer&utm_campaign=Daily-Alert_30-01-2024&utm_content=Energy+code+reform%3a+implementation+consultation&dm_i=1QCB,8J14J,F31G13,ZA9MT,1)

### Code governance arrangements: A more inclusive, open and non-discriminatory process to raise change proposals

Currently, the UNC arrangements are quite limited in terms of participation rights and stakeholders' ability to raise proposals. As an example, it is currently not possible for interconnectors to raise modifications proposals whilst other flexibility assets such as GB storage and LNG can do so. This is despite interconnectors being certified as GB TSOs and NTS market arrangements having a direct impact on cross border trade. As GB becomes more dependent on gas imports, a more inclusive process is necessary. We therefore welcome consideration of reform to enable all stakeholders (inc. non code signatories) to raise modifications and be involved in stakeholder forums as equitable partners. This will ensure a more open and fair code governance process.

### Code governance arrangements: An open stakeholder advisory forum

INT supports the need for continued industry advice and consultation in the development of change proposals. INT welcomes the use of stakeholder advisory forums to provide advice to the code managers and Ofgem. This should, however, be used to supplement the development of proposals and not replace the need to hold a formal consultation on the final proposals.

To ensure an effective and efficient use of such forums, it is important to learn the lessons from protracted processes such as UNC 621 and UNC678. Ofgem should play an active role from the being on strategic issues like charging. It should be able to steer discussions and share its initial views without fettering its discretion on any final proposals.

In terms of the options outlined, INT would support option 1 – an open forum that any stakeholder can attend to share views. This will provide the widest membership and enable small and medium sized stakeholders to participate in areas that really matter to them. We do not believe an option with fixed membership would get the widest participation nor achieve the fairest representation of the industry given such a forum is likely to be dominated by network operators and larger market participants (as the parties most able to put forward resources to such committees).

### GEMA's Strategic Direction Statement

INT supports the proposal to issue the SDS next year. This can avoid delays and help guide industry in preparing groundwork. It also helps prospective licence managers better consider their proposals and plan resources.

We also welcome Ofgem's proposal for the SDS to provide a strategic direction for up to 5 years and believe the minimum period should be 2 years. This provides industry with a clearer vision to work towards. It furthermore avoids the risk of stakeholder inertia if the SDS is constantly changing year on year or only "valid" for that time and in a perpetual process of review/consultation.

A process whereby Ofgem consults on the proposed SDS before it is finalised is also supported. This enables stakeholder views to be considered and will ensure a better SDS.

### Transitional approach

Whilst we understand the rationale for adopting a transitional approach to avoid front-loaded resourcing challenges, we are concerned that the gas network codes are only considered as a phase 2 priority. Given the critical role gas will play in the energy transition and its ongoing security of supply value to consumers, gas code reform should urgently be addressed. Some

critical strategic issues, such as ensuring the GB gas market is a competitive destination for gas in the face of increasing regional/global competition for gas, are unlikely to be addressed adequately in the current governance framework.

Our response to the specific consultation questions are outlined in Annex 1 to this letter. INT remains available to further discuss the points made in our submission. If you wish to clarify anything in our response, please do not hesitate to contact me or my colleague Joseph Leggett – Regulatory Analyst ([joseph.leggett@interconnector.com](mailto:joseph.leggett@interconnector.com)).

Yours faithfully

A handwritten signature in black ink, appearing to read 'P.Dhesi'.

**Pavanjit Dhesi**  
Regulatory Affairs Manager

## Annex 1 – Interconnector response to the Ofgem Questionnaire

- 1. 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?**

We welcome a holistic approach and support the UNC being part of the qualifying documents. The gas market will play a vital role in the energy transition and remain critical to delivering security of supply to GB consumers. It is vital, therefore, that gas code reform can tackle some important strategic issues such as ensuring GB is a competitive and attractive destination for gas as it becomes increasingly reliant on gas imports. Cross code considerations are also likely to grow as the role of gas, to address variability in renewable generation, increases, as well as the need to integrate more low carbon fuels into the energy mix.

- 2. 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?**

We agree Xoserve should be included as one of the qualifying central systems. Central systems will play a critical implementation role. It is vital that such systems can therefore make the necessary changes in an efficient and timely manner.

- 3. 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.**

INT appreciates this is a difficult exercise and results in a broad range of estimates. Nevertheless, we note there is a clear positive cost benefit analysis in doing this reform.

Whilst appreciating the difficulty in doing this exercise, it would be helpful to understand the range of estimates for the various transitional proposals Ofgem outline in the consultation e.g. the cost of doing a big bang approach/ benefits of concluding the reform process faster and how that compares to a more phased approach.

- 4. 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.**
- 5. Do you agree with our preferred option to consolidate the CUSC and DCUSA to form a unified electricity commercial code?**
- 6. Do you agree with our preferred option to consolidate the Grid Code, STC, SQSS and Distribution Code to form a unified electricity technical code?**

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

We support the rationale for consolidation to enable greater coordination and a simpler governance process. It is important, however, that the trading arrangements reflect the appropriate level of rules required for the relevant operator and do not simply impose all the rules applied to the national network transmission operator. If the IGT UNC is to be consolidated with the UNC, it is important to consider separate sections or make a clear distinction about whether rules apply to all the relevant transmission operators or just National Gas.

The modification process itself, for any consolidated code, must enable all stakeholders (inc. non code signatories) to raise modifications as part of the modification process. This will ensure a more open and fair code governance process.

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

We support rationalisation and simplification of existing code provisions to enable a more efficient/clearer code and governance process.

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

INT supports the proposal to issue the SDS next year. This can avoid delays and help guide industry in preparing groundwork. It also helps prospective licence managers better consider their proposals and plan resources.

We also welcome Ofgem's proposal for the SDS to provide a strategic direction for up to 5 years and believe the minimum period should be 2 years. This provides industry with a clearer vision to work towards. It furthermore avoids the risk of stakeholder inertia if the SDS is constantly changing year on year or only "valid" for that time and in a perpetual process of review/consultation.

A process whereby Ofgem consults on the proposed SDS before it is finalised is also supported. This enables stakeholder views to be considered and will ensure a better SDS.

**10. Do you have views on the proposed SDS process?**

See response to question 9 above.

**11. 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?**

Unclear at this stage without further details on the proposals, boundaries, and process. There must also be a distinction between information required to develop change considerations and cooperation necessary to implement changes once modifications are agreed (the argument for a general standard condition is stronger for the latter to ensure compliance).

Avenues already exist to address the need for information. Ofgem can also play an active part in the reform process and address such problems if they arise. If powers granted to Code managers are very broad there is a risk of misuse and over burdening licensees with multiple information requests.

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

INT supports the need for continued industry advice and consultation in the development of change proposals. INT welcomes the use of stakeholder advisory forums to provide advice to the code managers and Ofgem. This should, however, be used to supplement the development of proposals and not replace the need to hold a formal consultation on the final proposals.

To ensure an effective and efficient use of such forums, it is important to learn the lessons from protracted processes such as UNC 621 and UNC678. Ofgem should play an active role from the being on strategic issues like charging. It should be able to steer discussions and share its initial views without fettering its discretion on any final proposals.

In terms of the options outlined, INT would support option 1 – an open forum that any stakeholder can attend to share views. This will provide the widest membership and enable small and medium sized stakeholders to participate in areas that really matter to them. We do not believe an option with fixed membership would get the widest participation nor achieve the fairest representation of the industry given such a forum is likely to be dominated by network operators and larger market participants (as the parties most able to put forward resources to such committees). It is also difficult to guarantee impartiality of a fixed forum unless the participants are completely independent (i.e. not employed or remunerated by companies).

**13. 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?**

Clearer objectives would be welcome. In principle a net zero code objective is a logical addition given the goal of the energy transition. It is important, however, that the codes include a broader range of objectives which also explicitly include furthering security of supply for consumers. As part of the energy trilemma, there will inevitably sometimes be trade-offs between different objectives. There is a risk of bias, therefore, if some of the key objectives are explicitly mentioned while others not. Other important elements may not get a comparative objective assessment.

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

In principle, code managers should have the ability to prioritise modifications. Further details however are necessary to what criteria will be proposed. These criteria should be consulted on with the market. Regardless of the priority classification, it is important that energy code reform results in timelier outcomes on modification proposals. A way to encourage this would be to consider defining maximum periods depending on the size or complexity of the matter, and/or financial incentives on the code managers to process modifications (e.g a penalty if modifications have not been processed by defined periods for the different prioritisation categories).

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

INT appreciates the rationale for proposing a phased approach given the resourcing challenges as well as the challenge for industry in a "big bang" approach. We do, however, note that there will be more interlinkages between the energy vectors, and both electricity and gas codes will also need to be reformed to facilitate the development of hydrogen. Reform of the UNC should, therefore, be included in phase 1.

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

See response to question 17 below.

**17. What are your views on our proposed transition sequencing?**

Whilst we understand the rationale for adopting a transitional approach to avoid front-loaded resourcing challenges, we are concerned that the gas network codes are only considered as a phase 2 priority. We believe gas code reform should be initiated from phase 1. This reflects the fact that gas will play a critical role in the energy transition (interconnected demand for gas with renewable generation variability, more low carbon gases and the development of the hydrogen market). It also has an ongoing security of supply value to consumers. Some urgent, strategic issues, such as ensuring the GB gas market is a competitive destination for gas in the face of increasing regional/global competition for gas, are unlikely to be addressed adequately in the current governance framework.

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