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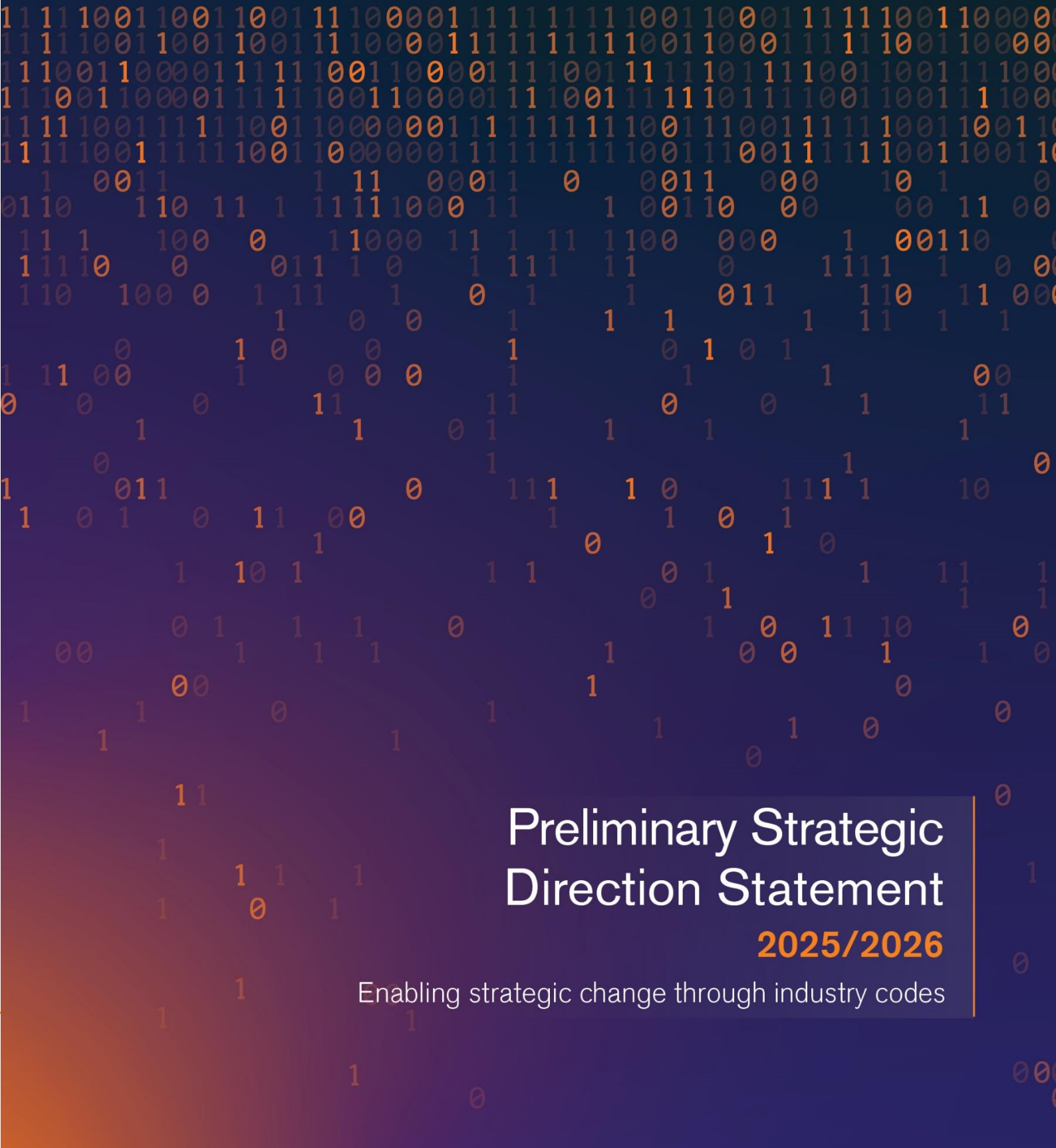

Preliminary Strategic Direction Statement

2025/2026

Enabling strategic change through industry codes

Preliminary Strategic Direction Statement for industry codes

Contents

Director Foreword

Publication of this preliminary Strategic Direction Statement (SDS) marks a significant milestone in our delivery of energy code governance reform. Industry codes are fundamental to the transformation of the energy sector. They underpin the delivery of critical projects that support the long-term strategic ambitions of both government and Ofgem.

We are publishing this strategic document ahead of the first code manager appointments in 2026. This early publication is intended to support prospective code managers in preparing for their roles and support all stakeholders in progressing the strategic changes essential to achieving the government's goal of clean power by 2030.

We are encouraged by the strong support from stakeholders for the SDS and the shared ambition to drive strategic change within the current governance framework. The expertise and collaboration of industry participants will be vital to the successful implementation of the SDS. Over the coming year, we look forward to seeing the SDS brought to life - through the development and implementation of strategically important modifications, and through collective efforts to identify and act on opportunities for change.

As an organisation, we are committed to realising the benefits the SDS offers and have prioritised code governance reform as part of our Forward Work Plan for 2025-26. We are looking forward to working together to implement these vital reforms and to shape a more agile, responsive and resilient future energy system.

We thank you for your continued engagement and support.

Cathryn Scott
Director of Market Oversight & Enforcement

Neil Kenward
Director of Strategy, Economics, Research and Net Zero

Introduction

Our energy system is transforming as we transition to net zero. Looking ahead to the energy system of the future, it is vital that industry codes – which contain the detailed rules of participation in the energy markets and define the terms under which industry participants can access the electricity and gas networks – can evolve to support this transition. Code changes are a key driver of change, enabling the implementation of government and Ofgem's policy priorities.

To help coordinate and prioritise strategic change within the industry codes, our preliminary Strategic Direction Statement (SDS)[1] includes a strategic assessment of government policies and developments in the energy sector that we consider will or may require code modifications. This preliminary SDS is a precursor to the SDS that will be published following designation of industry codes.[2] For ease, we will refer to this preliminary SDS as the 'SDS' throughout this document.

The transition to a more strategic approach to energy system planning is underway. Last year the Strategy and Policy Statement (SPS) was published, clearly setting out the government's strategic priorities and paving the way for strategic alignment and coordination across the energy sector. The creation of the National Energy System Operator (NESO) and its new strategic function will see the development of a more strategic, whole system approach to energy system planning. Most recently, the government has outlined their vision and key actions required for a net zero energy system in its Clean Power 2030 Action Plan.

Ofgem, as Great Britain's independent energy regulator, must carry out our functions in a way that protects the interests of existing and future consumers, including their interests in the Secretary of State's compliance with the Climate Change Act and the government's legal obligation to get to net zero by 2050. Ofgem's Multiyear Strategy (MYS) sets out how we plan to do this through our key strategic priorities over the next five years and beyond.

With this context in mind, it is timely that we are now publishing the SDS. Industry codes play an important role in implementing policy change and modifications to the

[1] An explanatory definition of 'SDS' is included in the glossary, please refer to Appendix 1.
[2] Codes will be designated by the Secretary of State (per s.182 of the Energy Act 2023) prior to code manager appointment. The first code manager is expected to be appointed in 2026. This designation is distinct from the designation of 'qualifying documents' (per paragraph 1 of Schedule 12 to the Energy Act 2023) which is a transitional designation to allow use of Ofgem's transitional powers on codes that have been designated as qualifying documents. We expect designation of industry codes to happen in parts, where we refer to "designation of industry codes" throughout this document, this refers to designation of any particular code or codes as the case may be.

codes are already enabling critical projects that will help achieve the long-term strategic ambitions for the energy sector. This includes enabling market-wide half-hourly settlement which will enable greater flexibility, and connections reform which has established a more strategic and responsive connections process. Once implemented, this will allow more efficient network planning alongside timely delivery of connections to the grid for projects that are sufficiently progressed and aligned with the Clean Power 2030 Action Plan. The role of industry codes in bringing about strategic change cannot be understated.

For this reason, we are publishing this SDS before code managers have been appointed. We consider that early publication will allow us to bring forward some of the benefits of code governance reform by:

- providing an opportunity to progress strategic change under existing code governance, before code manager appointment
- helping to prepare prospective code managers for their new role and
- allowing stakeholders to understand the SDS process and for that process to be refined.

This document is particularly relevant to existing code administrators, code panels, code parties and Central System Delivery Bodies. We expect these stakeholders to work together to consider how the strategic priorities outlined in the SDS can be integrated into and delivered through the existing code governance arrangements. Further detail on stakeholder roles is provided in the 'roles and responsibilities' section. We encourage all parties to see the opportunities this SDS presents for driving strategic change and delivering positive outcomes for consumers through the codes.

How to read this document

The '**Legislative Framework**' section explains the Gas and Electricity Markets Authority's (GEMA) obligation in the Energy Act 2023 (the "Act") to publish an SDS. References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

'**The SDS**' section explains our approach to publishing the preliminary SDS, including the proposed code governance changes that are designed to facilitate implementation of the SDS.

The '**Ofgem's Duties**' section explains Ofgem's duties, our Consumer Interest Framework and how these have informed the SDS.

The '**Roles and Responsibilities'** section outlines the role of Ofgem, government and NESO in preparing the SDS. It also sets out the roles and responsibilities of code administrators[3], central system delivery bodies[4] (CSDBs), code panels, code parties and other relevant bodies, in response to the SDS.

The '**SDS coding and prioritisation**' section explains how colour coding and prioritisation has been used in the SDS to help improve readability.

'**Section 1: Strategic policy context**' summarises the current state of the energy sector, includes a strategic assessment of government policies and wider energy sector developments, and describes how they are relevant to the SDS.

Sections 2-4 set out the policy areas that will or may require changes to industry codes, following the strategic assessment set out in Section 1. These sections follow the structure of Ofgem's Multiyear Strategy and are ordered based on the strategic priority and objective that they contribute to.

- **Section 2: Shaping a retail market that works for consumers**
- **Section 3: Enabling infrastructure for net zero at pace**
- **Section 4: Establishing an efficient, fair and flexible energy system**

Subsidiary Document 2: Preliminary Strategic Direction Statement spreadsheet is a spreadsheet that contains the policy areas identified in sections 2-4. This spreadsheet can be filtered by relevant code and time horizon. We expect that this spreadsheet will be a useful tool in implementing the SDS by helping stakeholders to identify which changes are relevant to them.

Legislative framework

Ofgem's obligation to publish an annual SDS for 'designated documents' was introduced in section 190 of the Act. This obligation has not yet come into effect as no industry codes have yet been designated by the Secretary of State. This preliminary SDS is a

[3] Throughout this document 'code administrators' includes the existing code manager of the Retail Energy Code. This is to avoid confusion with future code managers that will be appointed as part of code governance reform.

[4] Throughout this document 'CSDBs' refers to the five central systems that are going to be designated as 'qualifying central systems'. These are: 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, which carries data used in the change of supplier process (as required by the REC and BSC), currently operated by Electralink; and, the Central Switching Service, as required by the REC, currently operated by the DCC.

precursor to the SDS that will be published following designation of industry codes. For ease, we will refer to this preliminary SDS as 'the SDS' throughout this document.

Under section 190(1) and (2) Ofgem must publish an annual SDS for designated documents. As set out in section 190 (3), the SDS must contain a strategic assessment of government policies, and of developments relating to the energy sector, that Ofgem considers will or may require the making of modifications to designated documents; and cover such other matters relating to designated documents as the Secretary of State may specify in regulations. In preparing the SDS, the Act requires Ofgem to have regard to any advice given to it by the Independent System Operator and Planner so far as relevant to the SDS (section 190(4)). In September 2024, NESO was formally designated as the Independent System Operator and Planner.

The SDS

In January 2024, we consulted on our approach to implementing code governance reforms, including our approach to the SDS and new code governance arrangements[5]. A majority of respondents agreed with our proposal to publish an SDS before code manager appointment and following this we decided to proceed with publishing a preliminary SDS in 2025[6]. In this decision, we confirmed that the SDS should primarily focus on code modifications expected over the next one to two years but that, depending on the policy area, up to a five-year period may be covered.

To inform the development of the SDS we engaged stakeholders during summer 2024. Code administrators[7], code panels and central system delivery bodies (CSDBs) attended workshops to provide feedback on SDS development. Following this, we consulted on our proposed approach to the development process and implementation of the SDS, alongside the draft SDS, in January 2025. These were valuable opportunities for stakeholders to inform our approach to the SDS.

An industry code will become a designated document once it has been designated by the Secretary of State, following recommendation from Ofgem. We expect this will happen at the point of code manager appointment. The SDS is being published before code managers have been appointed and codes designated. Nonetheless, we consider that

[5] Consultation on the implementation of code governance reform
[6] Implementation of energy code reform: consultation decision
[7] Throughout this document 'code administrators' includes the existing code manager of the Retail Energy Code. This is to avoid confusion with future code managers that will be appointed as part of code governance reform.

there is value in this SDS addressing all the codes within scope of code governance reform, before they have been designated.

We recognise that future designated documents are not yet known and that any future SDS that is prepared and published in accordance with our legislative duty, once that takes formal effect, will relate to the relevant designated documents at that time. This will likely mean that a future SDS will be a hybrid document that will address both designated and not-yet-designated codes, until all codes have been designated.

For clarity, this SDS sets out government policies and developments to the energy sector that we consider will or may require the making of modifications to the following codes[8]:

- Balancing and Settlement Code (BSC)
- Connection and Use of System Code (CUSC)
- Distribution Code (D-CODE)
- Distribution Connection and Use of System Agreement (DCUSA)
- Grid Code
- Independent Gas Transporters' Uniform Network Code (IGT UNC)
- Retail Energy Code (REC)
- Security and Quality of Supply Standard (SQSS)
- Smart Energy Code (SEC)
- System Operator Transmission Owner Code (STC)
- Uniform Network Code (UNC)

As set out in our most recent joint consultation with DESNZ, we propose code managers are subject to a licence obligation to prepare delivery plans setting out how they will facilitate delivery of the SDS through industry codes. We have not introduced an obligation for any code parties to implement the SDS before code managers are in place. However, engagement with code parties and wider stakeholders has identified several opportunities for SDS-related modifications to be progressed under existing governance, in so far as these are compatible with current objectives and procedures. Industry will already be aware of some of the modifications proposed in this SDS, as they relate to existing policy that in many instances has already been consulted on, and some are already underway or planned to be raised in future. The SDS will help industry stakeholders to identify which of these modifications will help facilitate delivery of

[8] New codes, such as the CCS Network Code, are not within the scope of code governance reform and are therefore not addressed in the SDS.

government policy and developments in the energy sector, and where new modifications may need to be raised to further these priorities.

In preparing this SDS we have conducted a strategic assessment of government policies and of developments relating to the energy sector. We have had regard to advice provided by NESO.[9] The process for preparing this preliminary SDS is designed to reflect, as closely as possible, the process that will be followed in future years in the preparation of strategic direction statements to meet our legislative obligation. There will be an ongoing opportunity to refine this process and we will continue to welcome feedback from stakeholders about how this process could be improved.

Ofgem's duties

Ofgem is Great Britain's independent energy regulator. We work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment. Our principal objective, enshrined in legislation, in carrying out our functions is to protect the interests of current and future consumers. Our Consumer Interest Framework helps to explain what this duty means in practice and throughout this SDS we have identified the relevant pillars of our Consumer Interest Framework.

The Consumer Interest Framework:

	Fair Prices	**Quality & Standards**	**Low Cost Transition**	**Resilience**
Description	Costs are efficient and fairly distributed. Undue price discrimination is prevented and action to minimise consumer welfare risks (e.g. fuel poverty and self-disconnection) is supported.	Customer services throughout the energy supply chain are accessible, transparent and responsive. Consumers are suitably empowered and protected from harm, with enhanced	Sustainable, carbon-free energy and associated infrastructure at least cost to consumers (and taxpayers). Consumers are supported to make greener choices and are fairly rewarded for their contributions to the system.	Consumers have a secure supply and trust that industry participants are resilient to market shocks. The sector attracts sufficient long-term investment to deliver consumer interests.

[9] This included engagement with the Electricity System Operator in advance of becoming NESO.

		protections for the vulnerable.		
Sub-objective	Prevent excessive profits	Accessible and responsive	Enable infrastructure and markets required for net zero transition	Maintain security of supply
Sub-objective	Achieve cost efficiency	Transparent and enables choice	Minimise net cost of transition	Robustness to market developments and external shocks
Sub-objective	Protect consumer welfare	Enhanced protections for the vulnerable	Apply innovative solutions to support and protect consumers	Ensure the sector is investable

The Electricity Act 1989 and Gas Act 1986 define our principal objective - to protect the interests of existing and future consumers. In determining what the interests of consumers are as a whole, Ofgem must include their interest in the Secretary of State (and the UK government) meeting the net zero 2050 target and interim 5-yearly Carbon Budgets, in accordance with the Climate Change Act 2008. In practice, we must consider, alongside our other duties and obligations, whether our decisions make it more or less likely that the Secretary of State will meet their commitment to net zero by 2050. Industry codes have an important role to play in achieving net zero and there are many references to net zero in this SDS.

Ofgem's growth duty requires us to have regard to the promotion of sustainable economic growth through our regulatory activities. Our primary contribution to economic growth is through regulation that minimises energy costs, keeps supply resilient and energy markets functioning effectively – as well as enabling investment in networks and other infrastructure.

The government has emphasised the central role that regulation and regulators play in delivering economic growth. As part of that, they have set a 25% target for reducing the administrative burden of regulation. Through code reform, we aim to create a framework that is easier for the sector to engage with and enables change to be delivered more efficiently and effectively.

Roles and responsibilities

This section sets out the roles and responsibilities for preparing, publishing and implementing the SDS. We expect that these roles and responsibilities will change over time, particularly as industry codes transition to the new governance framework.

At a high level, government is responsible for setting energy policy direction which will inform the SDS. Ofgem is responsible for assessing that policy and other developments related to the energy sector (as set out in *Legislative Framework*) when drafting the SDS. NESO have the opportunity to provide relevant advice to inform the SDS, which Ofgem must have regard to. Code administrators, Central System Delivery Bodies (CSDBs), code panels and parties have an opportunity to respond to the SDS consultation and engage with the SDS process when there are opportunities to do so. These parties can also play an important role in implementing the SDS, through raising code modifications and participating in work groups, as set out below.

Government

Government is responsible for setting the policy and regulatory framework for the energy sector in GB. The Department for Energy Security and Net Zero (DESNZ) is the sponsor department for Ofgem and has a role in sharing relevant government policy with Ofgem to inform the SDS. DESNZ's SPS, which sets out "the strategic priorities, and other main considerations, of His Majesty's government in formulating its energy policy for Great Britain", is a key input for the SDS. The SPS must be reviewed by government as soon as reasonably practicable after five years of its designation and under certain circumstances the statement may be reviewed prior to the five-year period elapsing.[10] If an SPS has not been recently published, DESNZ's role in sharing up to date, relevant government policy with Ofgem to inform the SDS will be particularly important. We expect that in future this sharing of policy developments that are relevant to the energy sector will include policy from across government departments. This reflects the approach of the SPS which brings together the strategic priorities and other main

[10] See Part 5 of the Energy Act 2013, section 134

considerations of government in formulating energy policy in one document. This role will be formalised in future years so there is a predictable, structured approach to information sharing and we will continue to work closely with DESNZ during SDS development.

Ofgem

Ofgem is responsible for preparing and publishing an SDS that meets legislative requirements. This obligation will gradually come into full effect following appointment of code managers and the designation of industry codes. As part of this obligation, Ofgem has a role in engaging stakeholders during the SDS process. For the SDS to be successful it is important that it provides industry stakeholders with the necessary information to propose the required code modifications. We will continue to engage with stakeholders to understand how the SDS can be improved in future years.

NESO

The National Energy System Operator (NESO) has an opportunity to provide advice to Ofgem during development of the SDS. This advice should relate to government policy and developments relating to the energy sector that will or may require the making of code modifications. The process for sharing this advice on an annual basis is being formalised with NESO.

Code administrators and code panels

Code administrators and code panels have a valuable role in sharing their knowledge and experience to help shape the SDS. We appreciate their continued engagement with the SDS and the wider code governance reform project and welcome their contribution.

Once appointed, code managers[11] are proposed to be subject to a licence obligation to prepare delivery plans setting out how they will facilitate delivery of the SDS through industry codes.[12] Existing code administrators do not have an obligation to prepare a delivery plan but stakeholder engagement has identified several opportunities to progress SDS-related modifications under existing governance.

To understand this opportunity better, following publication of the preliminary SDS, we expect:

[11] In this context, 'code managers' refers to future code managers that will be appointed as part of code governance reform. This does not refer to the existing code manager of the Retail Energy Code.
[12] More detail on proposed code manager obligations is included in the Consultation on code manager licence conditions and code modification appeals to the CMA

- Code administrators to consider how strategic priorities identified in the SDS can be accommodated within existing budget setting and delivery planning processes.
- Code administrators and code panels to work together to assess existing code modifications and identify which modifications will facilitate delivery of the SDS.
- Code administrators and code panels to work together to consider whether modifications that facilitate the SDS can be prioritised, whether modifications that are not going to facilitate the SDS can be deprioritised and whether new modifications that will facilitate the SDS can be raised by a code party.

This prioritisation process should utilise the new standardised approach to code modification prioritisation, that is proposed to be introduced alongside other interim governance changes. This approach to prioritisation is explained in the Consultation on the preliminary Strategic Direction Statement and code governance arrangements and proposes that the SDS should be considered as one of the criteria when making prioritisation decisions.

Central System Delivery Bodies

CSDBs have an important role in identifying and implementing system changes that might be required following code modifications. We would like CSDBs to review the SDS and consider the system implications that might follow an SDS-related code modification. We would also like CSDBs to continue to engage with existing code administrators and code panels to understand the system requirements of code modifications to implement the SDS and to understand the impact of any planned system outages on planned modifications. We would like this information to inform the prioritisation process undertaken by code administrators and code panels, as described above.

Code parties

Code parties have an ongoing role to engage in the development of code modifications, including through participating in code modification work groups. They can also propose new, SDS-related modifications and we encourage code parties to consider whether further code modification proposals could be brought forward to support delivery of the SDS.

SDS coding and prioritisation

This section explains how colour coding and prioritisation have been used in the SDS to help improve readability.

Identifying which codes require change

Sections 2-4 set out the policy areas that will or may require changes to industry codes. Not all of these policy areas will require changes to every industry code. Colour coding has been used to help identify which industry codes are likely to be affected by policy change, see key below.

Where a code has been identified as relevant to an objective it means that we think bodies with a responsibility or interest in that code should be aware of this policy work and the possibility of code changes. Colour coding does not indicate that code changes are definitely required to the specified code. Further detail on the nature of possible changes is explained in the text beneath each objective.

In some instances, where the policy is currently under development, we cannot ascertain yet which codes may be affected by such policies. In such instances, we have included the policy area for the awareness of all concerned parties.

The codes relevant to the policy areas set out in the SDS have been identified based on our analysis of the information available to us and assessment at this point. We acknowledge the expertise of the industry in helping to identify the relevant codes and that as code modifications proposals are developed, there may be further clarity on which codes are affected.

Colour coding key

Content is relevant to the following code	**Colour coding**
All codes	**ALL**
Balancing and Settlement Code	**BSC**
Connection and Use of System Code	**CUSC**
Distribution Code	**D-CODE**
Distribution Connection and Use of System Agreement	**DCUSA**
Grid Code	**GRID CODE**
Independent Gas Transporters' Uniform Network Code	**IGT-UNC**

Retail Energy Code	**REC**
Smart Energy Code	**SEC**
Security and Quality of Supply Standard	**SQSS**
System Operator Transmission Owner Code	**STC**
Uniform Network Code	**UNC**
Unknown *Where this label appears, it is not yet known which codes will be affected. Where this label appears alongside other codes, it means we expect that other codes may be affected but do not know which.*	**Unknown**

Prioritisation

Sections 2-4 identify policy areas that will or may require changes to industry codes over the next 1-5 years. To support implementation of the SDS we have categorised these policy areas based on when code modifications are expected to be required. This should help industry stakeholders to prioritise SDS-related code modifications.

Policy areas fall into one or more of the three categories explained below. For each category we have indicated:

- The implementation timeline for code modifications.
- What we expect from industry stakeholders to support implementation.
- How each category is identified in the SDS.

1. 'Act now' category

- Timeline
  Changes are expected to be developed and, in most instances, implemented within two financial years[13] of the publication of the SDS – financial years 2025-26, 2026-27.
- Ask of industry stakeholders

[13] See Glossary for definition of 'financial year'

We would like industry stakeholders, and Ofgem, DESNZ or NESO where relevant, to develop code modifications that enable the described policy and for these to be implemented in the codes. We expect that in most cases the legal text will have been drafted and implemented within two financial years of the publication of the SDS. However, we recognise that some changes necessarily take longer, such as those that require system change. Where system changes are required, we would like an assessment to be made of the timescale for implementation and changes to be made in a timely way.

For the upcoming financial year (2025-26), the policy outcomes and associated modifications set out in the preliminary SDS should be prioritised where possible in the context of planned and industry raised modifications, within existing budgets. The preliminary SDS (summer 2025) should be used to inform budget setting and delivery plans for 2026-27.

- Code changes that fall into this category have this label:

Act now category

2. 'Think and plan' category

- Timeline

  Changes are expected to be developed and, in most instances, implemented within 2-3 financial years of the publication of the SDS – financial year 2027-28.
- Ask of industry stakeholders

  We would like industry stakeholders, and Ofgem, DESNZ or NESO where relevant, to plan, resource and budget for implementing the necessary code changes in the financial year 2027-28. Where required we expect stakeholders to collaborate on pre-modification work to develop modifications in advance of implementation. To facilitate a smooth modification process, this pre-modification work may need to take place prior to a code modification being raised and before the financial year 2027-28.
- Code changes that fall into this category have this label:

Think & plan category

3. 'Listen and wait' category

- Timeline

  Changes are expected to be implemented within 3-5 years of the publication of the SDS – financial years 2028-29, 2029-30.
- Ask of industry stakeholders

  We would like industry stakeholders, and Ofgem, DESNZ or NESO where relevant, to be aware of this policy area and that changes may be required to implement policy change in future. We would like consideration to be given to whether change may be so significant that early scoping work may be required by industry stakeholders.

  Policy included in this category is still in development. Although we don't expect code changes will be required to be implemented until the financial years set out above, it is possible that as policy work progresses code changes may need to be implemented sooner. Changes to the implementation timeline will be set out in future SDS or other Ofgem publications.
- Code changes that fall into this category have this label:

  Listen & wait category

As policy decisions are made, we expect that content will move from one category to the next. For example, content that is currently included in the 'Think & plan' category in this SDS may progress to be in the 'Act now' category of the next SDS. This progression is intended to give industry stakeholders long-term sight of possible code modifications to inform their business planning and budgeting processes.

Section 1: Strategic policy context

This section of the SDS sets out the current state of the energy sector, a strategic assessment of government policies and wider energy sector developments, and describes how they inform the SDS. In doing so, this document leverages the analysis and work involved in developing Ofgem's Multiyear Strategy (MYS) to inform the structure of the SDS. Ofgem published its Strategy in March 2024 setting out its strategic priorities for the next five years and beyond. In developing the MYS, Ofgem considered government's strategic policies for the sector, as set out in the government's Strategy & Policy Statement (SPS), and broader energy sector developments. The MYS drives Ofgem's annual work programme, the Forward Work Programme.

The current state of the energy sector

The energy sector is at a pivotal moment as the UK transitions away from using fossil fuels to generate clean power by 2030. However, in the interim, Britain remains exposed to global gas markets, which means that increases in wholesale gas prices feed through to British households and businesses.

The country has made progress towards net zero, but the transition is entering a new phase – further accelerated by the government's goal of achieving clean power by 2030. The rest of this decade will be a period of rapid change for the sector, bringing challenges and opportunities – and a long-term view will be essential for success. Key trends we expect to see include:

- Increased uptake of low carbon technologies – including electric vehicles and heat pumps.
- Increased electrification will drive up electricity demand – resulting in increased generation from renewable sources, and other low-carbon generation including nuclear and hydrogen.
- Managing a renewables-dominated electricity system will require greater flexibility – enabled by market reforms, smart meters, and market-wide half-hourly settlement – and this flexibility will offer benefits to consumers.
- Likely decline in the demand for natural gas – driven by changes to energy consumption e.g. electrification, renewable generation and potential for hydrogen usage.

A Clean Energy Superpower – One of Government's top five missions

One of government's missions is to make 'Britain a Clean Energy Superpower'. To achieve that, the Secretary of State for Energy Security and Net Zero has established the government's Energy Mission Board[14]. The Mission Board consists of ministers across government, brought together to accelerate progress to achieving clean power by 2030.

The government has set out the specific actions and policies to deliver a net zero energy system through their Clean Power 2030 Action Plan (CP2030). The plan sets out how government, alongside Ofgem, NESO and others, will support these objectives.

As the rules that underpin the energy system, industry codes will play a critical role in delivering the CP2030 mission and are already helping to facilitate change across key policy areas such as connections reform and establishing the NESO.

Strategy and Policy Statement (SPS)

The government's SPS is developed in accordance with the Energy Act 2013 and sets out government's strategic priorities, desired policy outcomes and the roles and responsibilities for policy implementation.

On 1 May 2024, DESNZ published the government's first SPS for energy policy. Ofgem must have regard to the strategic priorities set out in the SPS when carrying out our regulatory functions. The SPS does not introduce new roles or duties for Ofgem or other bodies in the sector, it is comprised of existing government policy, commitments and targets and it does not replace or override Ofgem's principal objective or other duties.

The SPS sets out strategic priorities and policy outcomes across three key areas:

- Enabling Clean Energy and Net Zero Infrastructure: through promoting renewable energy, infrastructure development, and improved innovation and technology.
- Ensuring Energy Security and Protecting Consumers: ensuring reliable and resilient energy supplies, safeguarding consumers from high energy costs, and promoting competition and efficient energy markets.
- Ensuring the Energy System is Fit for the Future: modernising the energy system through integrating new technologies, streamlining regulation, and ensuring the system supports long-term environmental and economic sustainability.

[14] First Mission Board focuses on immediate action to make Britain a clean energy superpower - GOV.UK

While the SPS was published under the previous government and our statutory obligations in relation to it remain, we work closely with the Department for Energy Security and Net Zero (DESNZ) and the National Energy System Operator (NESO) to ensure we are aligned to emerging energy policy.

Ofgem's Multiyear Strategy

Ofgem published its Multiyear Strategy in March 2024. The strategy was developed with a long-term view, including by engaging with external stakeholders and conducting horizon scanning, and outlines Ofgem's strategic priorities over the next five years and beyond.

The government, through the SPS, sets the strategic priorities, and other main considerations, of the government in formulating its energy policy for Great Britain. The MYS was developed alongside and has regard to the SPS and sets Ofgem's strategic direction across our organisational and regulatory responsibilities. Ofgem's regulatory strategic priorities are:

- Shaping a retail market that works for consumers: ensure fair prices, ensure high quality of service, enable competition and investability through financial resilience, support new and evolving markets.
- Enabling infrastructure for net zero at pace: progress strategic planning, expand electricity networks, prepare for the future of natural gas, facilitate deployment of low carbon technology, network performance and connections, ensure secure and resilient supplies.
- Establishing an efficient, fair and flexible energy system: ensure the right governance and institutions are in place, deliver effective and efficient market incentives and signals, enable consumer-focused flexibility, make a more digital system work for consumers.

Ofgem reviews its Strategy each year to ensure we remain responsive to changes in external environmental and government policy (including any updates to the SPS). The outcome of these reviews are shared in our annual Forward Work Programme and will inform future strategic direction statements.

Industry codes driving strategic priorities

Code changes are an important way to implement government and Ofgem's policy priorities, as set out in the SPS and Ofgem's Strategy. By translating these priorities for implementation into the codes the SDS allows for a more aligned approach to

implementing code change. The structure of the SDS enables us to consider code modifications in the context of our strategic priorities and demonstrates that industry codes are a critical enabler of the change needed to achieve Clean Power by 2030 and our net zero targets.

Section 2: Shaping a retail market that works for consumers

The transition to net zero will affect how people use energy and how much they pay for it. The system is becoming more diverse, flexible and data-rich, and the retail market will be the main way that consumers interact with these changes. The retail market must respond to the challenges and opportunities these changes bring. Ofgem is prioritising raising standards and doing more to facilitate net zero through the retail market, in a way that works for consumers as the adoption of electric vehicles, heat pumps, and other new technology continues.

This section sets out how codes can help shape a retail market that works for consumers by considering how code changes can implement policy priorities. This section follows the structure of objectives set out in Ofgem's Multiyear Strategy.

Objective 1: Ensure fair prices

1.1: Operate and evolve price protection

We do not think this objective currently has policy that requires implementation through codes.

1.2: Work with others to tackle the affordability crisis

Act now category

Relevant codes

This content is relevant to the following codes:

REC

Unknown

Policy context

This objective contributes to the Fair prices pillar of Ofgem's Consumer Interest Framework.

The energy sector has experienced significant price rises and inflation has been high across several sectors of the economy. Many consumers have struggled to pay their energy bills, and debt and arrears have risen sharply. Our latest data shows that debt and arrears is around £4.15bn in the domestic energy sector. This debt is driven by around 2.4m customers becoming more indebted, rather than an increasing number of consumers going into debt.

Code changes

We are working with our stakeholders and with government on potential solutions. These include interventions to reduce the level of debt and arrears, and assessing the rules we have on ability to pay and debt management. We published a consultation on our debt strategy in December 2024 to reset debt and raise debt standards. A key proposal to reset debt is the Debt Relief Scheme. Following our initial consultation, we are designing the scheme and testing with stakeholders with the view to publish a statutory consultation in autumn 2025. If we decide to go ahead with the Scheme, we will be aiming to implement during winter 2025/26.

We are keen to work with stakeholders to establish whether code changes may be required to implement these changes. If changes are required to industry codes, we expect that the REC, which outlines the key rules for operating in the GB retail energy market, to be the most likely code to be affected.

Objective 2: Ensure high quality of service

2.1: Improve protection for all consumers, particularly those in vulnerable situations

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

REC

SEC

Policy context

This objective contributes to the Quality and standards pillar of Ofgem's Consumer Interest Framework.

We want all customers to get a high-quality service. This is an important part of shaping a retail market that works for consumers. Over recent years, the sector has experienced significant upheaval and price rises, particularly affecting vulnerable consumers. To reflect this, we recently published our revised Consumer Vulnerability Strategy and we are also working with government and other regulators to improve the ways Priority Services Register (PSR) data is shared in the energy sector and with the water sector. Alongside this, the sector continues to face challenges in customer satisfaction

particularly among financially vulnerable and non-domestic consumers. Domestic customer satisfaction appears to be on an increasing trend, but satisfaction in the sector remains low when compared to other sectors of the UK economy and not all suppliers are improving at the same rate.

We launched our Consumer Confidence Programme in September 2024 to drive up the standards of customer service in the energy sector to match leading UK industries. In this first phase of the programme our work focuses on retail supply only. This summer, we plan to publish a policy consultation focusing on outcomes we expect the market to deliver and ways of delivering them through our regulatory framework. We will also continue to work with government on the Ofgem Review with a view to enhance our regulatory powers.

Code changes

Code changes may be required to ensure that all consumers, including vulnerable consumers, receive a high quality of service and are given the protection that they need. In particular, code modifications may be required to the REC, SEC or BSC. We want to work with industry stakeholders over the next year to identify what changes, if any, are required. The outcomes of our Consumer Confidence programme, Consumer Vulnerability Strategy refresh and work to improve Priority Services Register data sharing will help identify whether code modifications are required.

2.2. Protect the interests of non-domestic consumers

Act now category

Relevant codes

This content is relevant to the following codes:

REC

SEC

DCUSA

Policy context

This objective contributes to the Fair prices and Quality and standards pillars of Ofgem's Consumer Interest Framework.

The changes described below will support shaping a retail market that works for all, by ensuring a high quality of service and in part helping to ensure fair prices. Recently we

concluded our Non-Domestic Market Review. During this we reviewed the whole of the non-domestic market and introduced a number of rules to improve the market for non-domestic consumers. This included expanding dispute resolution for customers of Third Party Intermediaries (TPIs), expanding transparency requirements regarding TPI service fees, extending the Standards of Conduct to all non-domestic consumers, requirements for improved signposting to advice services and the updating of the Complaints Handling Standards. As of December 2024 these have all been implemented.

One of the areas identified in the review was issues surrounding change of tenancy/occupier. Following this, RECCo led the development of work to improve this process and we accepted REC Change proposal R0155 on 4 February 2025. Implementation of these changes took effect in June 2025 and we consider that this will lead to improved consumer outcomes including reduced fraudulent activities and accumulation of bad debt.

Another area identified in the review was insufficient protection for consumers engaging in the market via Third Party Intermediaries. This is an area of the market that is unregulated. As such we requested government to consider the regulation of this market and a consultation was issued on 20 September 2024. At time of writing, government have not yet announced the next steps of this consultation. In order to support improved standards in the market RECCo has developed a voluntary code of conduct for energy brokers (a form of TPI). In December, they submitted a code modification seeking to make this code of conduct mandatory. On the 16th May, Ofgem determined that we cannot approve the proposals for a number of reasons, please see the Decision for further details.

We continue to support the drive to improve standards in this and other areas of the market.

Code changes

The above two code modifications highlight the role of codes, particularly the REC, in supporting and improving the non-domestic retail energy market. Code changes may also be required to the SEC and DCUSA codes. Smart metering policies and any associated changes to codes may impact consumers in the non-domestic market. Changes to the DCUSA may be required as the code pertains to non-domestic energy suppliers, thus could impact on the interests on non-domestic consumers. We will continue to work with stakeholders including code bodies and government in order to support improvements to the market and to identify any changes to relevant codes.

2.3: Deliver effective and proactive monitoring, supervision, compliance, and enforcement activities

We do not think this objective currently has policy that requires implementation through codes.

2.4: Use data to drive up supplier performance

We do not think this objective currently has policy that requires implementation through codes.

Objective 3: Enable competition and investability through financial resilience

Think & plan category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

DCUSA

GRID CODE

REC

SEC

UNC

Policy context

This objective contributes to the Quality and standards, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Following the progress made on developing financial resilience of suppliers, we are keen to ensure that there is appropriate financial resilience across the energy system. As we saw in the retail crisis, when a company is in financial distress this can result in harm to consumers. Poor financial resilience across the energy sector – from generation to gas shipping can significantly impact consumers, through higher costs and poor quality of service. We note that improvements have already been introduced to the codes' credit arrangements in recent years (such as IGT132VV) and we encourage stakeholders to

consider further proportionate improvements to ensure that the sector is appropriately protected from financial risks.

Code changes

We stand ready to support the industry as it develops further consumer protections through the BSC, CUSC, DCUSA, Grid Code, UNC, SEC and REC and other provisions that broadly relate to financial resilience.

Objective 4: Support new and evolving markets

4.1: Develop and implement heat network regulation

The heat networks technical standards code does not fall within the scope of the SDS because it will not be a designated document as defined in section 182 of the Act. We do not think that any heat network policy requires implementation through the codes that are within the scope of the SDS.

4.2: Explore reform of the retail market and respond to future developments

Listen & wait category

Relevant codes

This content is relevant to the following codes:

BSC

REC

SEC

Policy context

This objective contributes to the Fair prices, Quality and standards, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

The future retail market will need to adapt to rapid changes in how consumers use, and engage with, their energy. We expect there will be new opportunities for consumers to choose from a greater range of more sophisticated products and services and that smart technologies will help them save money and give them greater control over how they meet their energy needs. The retail market may also need to respond to wider reforms in the energy sector, including the Review of Electricity Market Arrangements (REMA). We must make sure that regulation does not stand in the way of new products and

services that could benefit consumers, while also ensuring that all consumers remain protected as the world changes.

Code changes

We want to consider how we can remove barriers to innovation and protect consumers as the market changes. DESNZ issued a call for evidence on innovation in the retail market in 2023. This found widespread consensus on the importance of the fundamental 'building blocks' for the future market, namely market-wide half-hourly settlement, the rollout of smart meters, and alignment with wider reforms including REMA. However, there was a lack of consensus on the specific elements of the current market regulatory framework that may be acting as barriers to innovation or what government should do about this.[15] We have consulted to seek views from stakeholders on how we can unlock more innovation. Code changes may be required to the BSC, REC and SEC to help enable innovation, facilitate the deployment and optimal use of low-carbon technology, protect consumers from harm and support consumer engagement with the market. For example, we note how important industry code changes have been in facilitating access to markets for flexibility aggregators and defining the supplier/aggregator relationship.[16]

Further modifications to facilitate innovation may be required to different industry codes. We want to work with industry stakeholders to identify what changes, if any, are required. If changes are required, we would expect the modifications to be implemented as soon as possible to enable new products and services that could benefit consumers, while also ensuring that all consumers remain protected.

[15] Towards a more innovative energy retail market: a call for evidence | DESNZ
[16] For example: Ofgem decision P415 'Facilitating Access to Wholesale Markets for Flexibility Dispatched by VLPs' | Ofgem

Section 3: Enabling infrastructure for net zero at pace

Delivering net zero requires a massive increase in investment in clean electricity generation and network infrastructure. To enable such a complex transition at pace, we need a decisive shift towards strategic planning and coordination, driven by the new national and regional strategic plans. It will be crucial that Ofgem, in its role as regulator, maintains a key role in the delivery of these aims to ensure benefits are realised for consumers. Through this period of unprecedented change, Ofgem and government must also ensure that our energy supply is secure and the system resilient to growing risks – not least from cyber-attack and the effects of climate change.

Objective 5: Progress strategic planning

The GB energy system is transitioning towards a more coordinated, strategically planned system. In July 2024 DESNZ commissioned NESO to provide advice to the government on delivering clean power over the near term by 2030, NESO's advice was published in November 2024. In October 2024, DESNZ commissioned NESO to produce Great Britain's first Strategic Spatial Energy Plan (SSEP). The SSEP builds on the government's Clean Power 2030 Action Plan (CP2030) by optimising a longer-term pathway to net zero energy by 2050. The recommendations for energy generation and storage in the SSEP will inform the development of the first Centralised Strategic Network Plan (CSNP) for the enabling network infrastructure. It will also feed into the preparation of a series of Regional Energy Strategic Plans (RESP), ensuring that national-level energy planning combines with local inputs to deliver regional development needs. Developments in strategic planning are closely linked to the wider energy policy landscape, not least the recent decision on the Review of Electricity Market Arrangements (REMA) and connections reform. Strategic plans and the policies that interact with them need to be co-designed to maximise that benefits for consumers.

5.1: Oversee production and implementation of a new Strategic Spatial Energy Plan

Listen & wait category

Relevant codes

This content is relevant to the following codes:

Unknown

Policy context

This objective contributes to the Low-cost transition pillar of Ofgem's Consumer Interest Framework.

In October 2024, the UK, Scottish and Welsh Governments formally commissioned NESO to produce the first SSEP, marking the first step on the journey to a more strategically planned energy system. Ultimately, the SSEP will be a comprehensive 'whole energy system' plan setting out what generation needs to be built, where and when, to drive the transition to net zero. The first iteration will focus on electricity generation and storage, including hydrogen assets. NESO published their methodology for producing this first SSEP in May 2025, with formal approval from Ofgem and DESNZ, and will deliver the plan by the end of 2026. It will continue the transition laid out in the Clean Power 2030 Action Plan by optimising the GB pathway to net zero in 2050. In the section below we have included our current view on whether code changes will be necessary to develop the plan.

Code changes

At present, we do not envisage any code changes being required to produce the SSEP, nor do we foresee any way in which use of the SSEP would require code changes. However, we will retain the SSEP in the 'Listen and wait' category. Once the shape of the plan becomes clearer during 2026, we may need to consider again if codes have a role in ensuring all parties engage with the SSEP recommendations.

Preparing the SSEP is a significant effort by NESO, requiring extensive stakeholder engagement over the course of the next two years. There will also be implications for industry through areas such as connections reform and network planning, which we expect to clarify for stakeholders as work on the SSEP progresses.

5.2: Establish and implement mechanisms to realise the Centralised Strategic Network Plan

Act now category

Relevant codes

This content is relevant to the following codes:

CUSC

D-CODE

DCUSA

GRID CODE

IGT-UNC

SQSS

STC

UNC

Policy context

This objective contributes to the Fair prices, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

In November 2022, Ofgem decided that NESO will be responsible for creating a new Centralised Strategic Network Plan (CSNP). The aim of the CSNP is to provide an independent, coordinated, and longer-term approach to energy network planning in GB to help meet the government's net zero ambitions. NESO's licence requires the publication of the CSNP by 31 December 2027.[17]

The CSNP will:

- Identify future wider network needs on the GB electricity and gas transmission network, as well as the proposed need for a hydrogen transport and storage network across Great Britain.
- Provide timely signals of wider network needs for the development of potential options which, in addition to network reinforcement, will include innovative and non-network solutions.

[17] See condition 17.18 of Electricity System Operator: Direction and Licence Terms and Conditions

- Evaluate and select optimal solutions for delivery to address future network needs, covering approximately a 12-year horizon.
- Identify a long-term 'funnel' of transmission network development projects addressing network needs on the longer-term pathways covering approximately a 25-year horizon.
- Produce a series of outputs including statements of system needs, consultations on high-level design options, and strategic network plans following a three-year cycle with annual updates in intervening years.

NESO are currently developing the methodology for the CSNP. Licence conditions require this to be submitted to Ofgem by 30 September 2025.

Code changes

The implementation of the CSNP will necessitate changes in roles, processes and data sharing that will require code modifications. As the methodology of the CSNP is in development, it is too early to determine the exact changes required. However, we expect references to, and descriptions of, network planning processes - such as those that relate to the Electricity Ten Year Statement and Network Options Assessment, to require changes in at least the STC, Grid Code, SQSS, and CUSC. It is possible that changes to the UNC, IGT-UNC, the Distribution Code and DCUSA may be required, or that new codes may be established.

Given the requirement for NESO to deliver the CSNP methodology to Ofgem by 30 September 2025, it is likely that there will be further clarity on other required changes in 2025. We expect these to be drafted and implemented in 2025 and 2026, alongside development of the first iteration of the CSNP. Other strategic planning initiatives, with which CSNP has dependencies, could also influence the code change delivery timelines.

5.3: Establish Regional Energy Strategic Plans

Act now category

Relevant codes

This content is relevant to the following codes:

CUSC

D-CODE

DCUSA

GRID CODE

IGT UNC

STC

UNC

Unknown

Policy context

This objective contributes to the Low-cost transition pillar of Ofgem's Consumer Interest Framework.

In our November 2023 future of local energy institutions and governance decision, we confirmed the introduction of a new regional strategic planning function delivered by NESO. The Regional Energy Strategic Plans (RESP) will support the energy system's transition to net zero in a cost-effective manner by enabling the coordinated development of the system across multiple vectors, providing confidence in system requirements and enabling investment in distribution network infrastructure ahead of need.

Code changes

The code changes required to implement the RESP, and therefore support a consistent, coordinated and whole energy system approach to planning of the distribution system, are unclear at this stage. In future, code changes to the Distribution Code, DCUSA and the Gas Codes may be required to enable the RESP to inform distribution network planning. It's possible that wider code changes may also be required.

We published our decision on the RESP policy framework on 2 April 2025 and are consulting on the introduction of new licence conditions for NESO with draft guidance

outlining our expectations for NESO's delivery of the RESPs and development of the RESP methodology. NESO will be required to consult on the RESP methodology by the end of 2025 and we expect the first RESPs to be delivered by the end of 2027. We expect that there will be further clarity on any potential code changes to the Distribution Code and the Gas Codes in late 2025 or early 2026. If code changes are required, we expect these to be drafted and implemented in 2026, alongside development of the first iteration of the RESP.

Objective 6: Expand electricity networks

6.1: Continue to drive accelerated onshore network investment

Think & plan category

Listen & wait category

Relevant codes

This content is relevant to the following codes:

D-CODE

GRID CODE

STC

Unknown

Policy context

This objective contributes to the Fair prices, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

There are various initiatives that government, Ofgem and Transmission Owners (TOs) are working on to facilitate the expansion of the electricity networks, at speed, that will be required to meet government net zero and clean power targets. This includes the strategic planning tools referenced above as well as price control mechanisms owned by Ofgem.

There are a number of government initiatives working towards this goal:

- **Community Fund guidance**
  First is the introduction of voluntary guidance standardising TOs' provision of Community Funds to communities impacted by new electricity transmission infrastructure. The policy provides for TOs to offer communities around new

infrastructure funding for local and regional initiatives, with a per-asset level of funding determined in the guidance.

- **NESO information gathering powers**
  In light of the strategic planning tools being developed that are described under Objective 5 above, and our work to set the next electricity transmission price control for 2026-31 (RIIO-ET3) and the next electricity distribution price control starting in 2028 (ED3), we are also exploring whether NESO has sufficient ability to compel TOs and DNOs to provide it with information that would aid it in meeting its objectives. In the context of strategic planning this may include information about system design, ratings of equipment and expected future expenditure. In the context of RIIO-ET3 this may include the ability of TOs to offer enhanced services.
- **Electricity bill discount scheme**
  Government has proposed a new electricity bill discount scheme for communities living nearest to new electricity transmission infrastructure as set out in their Policy Paper in March 2025. The bill discount scheme is a new proposed monetary benefit which aims to ensure that those living closest to new electricity transmission infrastructure across Great Britain can directly benefit from it. This is in recognition of the wider societal benefits of cheaper, more secure and low-carbon energy that this infrastructure brings.
- **Future developments for CATOs**
  We are introducing a new early competition framework to competitively tender qualifying onshore electricity transmission projects. We expect the Competitively Appointed Transmission Owner (CATO) framework to drive sector performance, foster innovation, attract investment into GB energy networks and contribute to the delivery of Net Zero at the lowest possible cost to consumers.

Think & plan category

Code changes

- **Community Fund guidance**
  Code modifications may be required to implement the government's policy proposals to introduce community funds for those impacted by new electricity network infrastructure. These may take the form of funding provision by TOs to

regions, communities or individuals based upon their proximity to new infrastructure, and the volume and type of infrastructure being introduced.

- **NESO information gathering powers**
  Separate to any activity in respect of community funds, code modifications to the STC (including System Operator Transmission Owner Code Procedures), Grid Code or Distribution Code may be required in order to provide the NESO with additional powers which would allow it to more easily compel TOs and DNOs to provide it with the information that it requires to meet its objectives.

Listen & wait category

Code changes

- **Electricity bill discount scheme**
  At this stage, we do not envisage any code changes being required and it is likely the policy will be implemented through licence modification. We will continue to consider the role of codes in the future of the bill discount scheme.
- **Future developments for CATOs**
  There are currently no additional modifications identified, however, it is possible that further changes will be required for as yet unforeseen circumstances.

6.2: Continue to operate and iterate the Offshore Transmission Owner framework

We do not think this objective currently has policy that is to be implemented through codes.

6.3: Enhance flexibility through electricity interconnection

Think & plan category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

GRID CODE

SQSS

Policy context

This objective contributes to the Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

In response to the November 2024 regulatory assessment decisions from Ofgem on new interconnector projects and Offshore Hybrid Assets (OHAs) deliverable by 2032, the government outlined that it is in favour of additional interconnection beyond 2030. Interconnectors can provide a wide range of benefits for GB, including enabling access to lower-cost electricity for GB consumers, diversifying the generation we have access to and adding flexibility to our energy system.

The government is considering the development of OHAs, a novel type of asset that combines traditional point-to-point interconnectors with the transmission of electricity from offshore wind generation into one asset. There are two different types of OHAs:

- Multi-Purpose Interconnectors (MPI) are interconnectors with a connected offshore wind farm within GB waters.
- Non-Standard Interconnectors (NSIs) are interconnectors with a connected offshore wind farm in the connecting country's waters only.

OHAs could help us achieve our net zero and energy security aims by more efficiently integrating renewable energy onto the grid. By combining an interconnector with an offshore wind farm, MPIs could reduce the total amount of infrastructure required in GB, thus decreasing the impact on coastal communities and the environment.

Code changes

Existing electricity licences, as they currently stand, fall short of addressing the multifaceted operation and characteristics of OHA development and operation. NSIs will be licensed via the existing interconnector licence, but modifications will be required to make the licence compatible with NSIs. MPIs, on the other hand, will require an entirely new licence to facilitate the dual function of offshore transmission and interconnection.

Additionally, modifications to the Grid Code, the BSC and the CUSC will be necessary to accommodate and capture OHAs' unique and complex commercial, operational and regulatory nature. While some existing code modification proposals already capture OHAs in their definitions, such as modifications proposed as part of connections reform (eg CMP 434), both technical and commercial code modifications will be required to adequately address and incorporate the unique features and requirements of OHAs. Modifications to the SQSS will also be necessary as MPIs combine offshore transmission with interconnection which introduces new configurations and power flow dynamics not currently addressed in the SQSS.

The scope of the required changes remains subject to change until other OHA related workstreams are concluded and outstanding dependencies surrounding the technical, commercial, operational and regulatory frameworks for OHAs are resolved. This includes the Contracts for Differences (CfD) regime for MPI connected wind, as well as the potential participation of the UK in the Internal Energy Market (IEM) following the outcomes of the UK-EU reset in May, given the significant implications of cross-border market arrangements on the wider OHA regime. The timeline for raising the code modifications, consultations, decisions and implementation is therefore uncertain. However, we expect that, while some potential modifications currently remain in the 'Listen & wait' category pending further clarity on policy and regulatory developments, other modifications could be raised as early as 2026 as policy work progresses.

NESO will assume responsibility for pursuing both commercial and technical code modifications, and industry will also be engaged to gain feedback and help refine the scope of the required modifications prior to these modifications being raised. This industry engagement will be led by NESO and aims to align the envisioned code modifications with industry perspectives. While the timeline for the completion of the new MPI licence and the interconnector licence modifications remains similarly uncertain, work continues to progress across all OHA related workstreams as we strive to transition to a renewable, net zero, resilient energy system.

Objective 7: Prepare for the future of natural gas

7.1: Recover the cost of the existing gas network

Act now category

Think & plan category

Relevant codes

This content is relevant to the following codes:

IGT-UNC

UNC

Policy Context

This objective contributes to the Fair prices pillar of Ofgem's Consumer Interest Framework.

We expect that policy surrounding the recovery of existing natural gas network costs will be implemented through decisions on setting regulatory depreciation in the gas price controls, with any code changes required following this being carried out through the UNC process.

The UNC has objectives around charging and cost recovery, including the requirement for arrangements to be transparent and cost reflective. We would expect these objectives to remain and for any future policy to further these aims, with the intention of ensuring a simple, comprehensible system that strives to ensure competition among users, and allows natural gas to continue to support whole system security of supply as needed.

We note the potential impact of disconnections on networks' ability to recover costs, particularly the challenge of recovering costs from a reducing pool of customers. Over time this could result in significant cost increases for consumers. We are also aware of the potential that those remaining on the gas network may be more vulnerable or unable to decarbonise. In recognition of this we launched a Call for Evidence to determine the likely scale and impact of disconnections.

Act now category

Code changes

Arrangements for the recovery of costs for the existing network sit within the UNC and the IGT-UNC. There are currently some proposals, such as UNC 0903,[18] moving through the UNC process which we will continue to engage with through work groups and panels, requiring the 'Act now' categorisation.

Due to the potential impact on security of supply of gas to consumers, we previously encouraged the industry to expedite the discussion on relevant matters and would urge stakeholders to continue to engage with this modification.

Think & plan category

Code changes

We also recognise that the ongoing RIIO-3 process may impact cost recovery. We are not aware of any code changes that may follow the conclusion of this process but remain cognisant that industry may raise modifications in the subsequent years. For this reason, we also consider this objective to fall into the 'Think and plan' category.

7.2: Prepare for repurposing and decommissioning of the gas grid

Act now category

Think & plan category

Relevant codes

This content is relevant to the following codes:

IGT-UNC

UNC

Policy context

This objective contributes to the Fair prices and Low-cost transition pillars of Ofgem's Consumer Interest Framework.

It is widely expected that there will be a reduction in demand for natural gas across the system, which could ultimately lead to some repurposing or decommissioning of gas

[18] UNC 0903 proposes to introduce a single National Transmission System (NTS) Capacity Reference Price at all NTS Entry and Exit Points to replace the current methodology that is based on a 50:50 Entry/Exit split arrangement for Transmission Services Allowed Revenue.

network assets. The extent and timeline for decommissioning and repurposing the gas grid for hydrogen, carbon capture, usage and storage, or other potential non-gaseous uses are dependent on wider government policy decisions. However, we are developing policy direction around the future of gas where possible. We currently envision four broad workstreams relating to the repurposing and decommissioning of the gas grid:

1. Gas Transporters

   This work will focus on the challenges associated with the repurposing and decommissioning of the vast system of assets. This transition will entail significant cost and, as things stand, it is unclear who should pay for decommissioning costs, this is subject to future government decisions. We intend to work closely with the government to identify the most appropriate strategy and funding options for decommissioning, including considering a whole systems approach and the impact on future and vulnerable consumers. Consideration will need to be given to reducing the impact on this potentially vulnerable group of consumers.

2. Disconnections

   An uptick in disconnections from domestic consumers is highlighting some flaws in the existing Gas Distribution Networks' (GDNs) arrangements. We are expecting the number and rate of disconnections to increase in the short to medium-term as consumers switch to alternative, low-carbon forms of heating, and so action needs to be taken to reduce the impact on consumers and GDNs.

3. Biomethane

   As the UK aims to decarbonise by 2050 and with domestic production of natural gas declining, there is likely to be a greater role for biomethane in the near future. Much of this work is industry led; however, we are engaging with transporters regarding some aspects, such as improvements to the connections process for biomethane producers and low carbon gas certification, as a means to assess regulatory barriers to increase production capacity. We anticipate the need for code changes, some of which are already underway, in order to maximise the potential of biomethane as a natural gas alternative.

4. Hydrogen Blending

   This work will focus on the changes that may facilitate or follow the introduction of hydrogen into the existing gas system, should this be supported and enabled by government. This work is predominately industry led, however, should industry progress a feasible model to facilitate blending arrangements in 2025, we anticipate

the need for code changes to allow for differences in charging and connection requirements to be accommodated.

Within each of these workstreams, it is also essential that due consideration is given to ensuring no vulnerabilities or single points of failure are introduced to the network that could have an impact on network resilience. Due consideration should also be given to ensuring that remaining infrastructure or infrastructure due to be decommissioned is properly maintained to ensure system resilience.

Act now category

Code changes - Biomethane

On biomethane, UNC modifications are already underway such as UNC894/A which is looking at means of facilitating additional biomethane entry into GDNs, and UNC900, concerning gas quality issues around the injection of biomethane into the National Transmission System (NTS). As demand for a greener alternative to natural gas increases, we anticipate further UNC modifications to follow. Given the impending decisions, we are categorising this workstream as 'Act now'.

Think & plan category

Code changes – Gas Transporters, Disconnections, Hydrogen Blending

Arrangements for both the NTS and GDNs are outlined in either the UNC, IGT UNC, or the Gas Transporter Licence. There may be industry led changes to both codes and the gas transporter licences to facilitate the introduction of hydrogen blending. The scope and implementation timeline are currently unknown, but early work is already under way in the hydrogen blending space.[19] There is also the possibility that changes in all four workstreams are carried out iteratively in line with the phasing in of technologies, as opposed to a single sweeping change. Much of this is dependent on government policy decisions and is therefore categorised under 'Think and plan' for the time being.

We are also aware of the potential issue of divergence in regulatory arrangements between GB and the EU. We are working closely with colleagues in both government and industry to monitor any developments in this area. Code changes may be required should any impactful divergence emerge.

[19] https://www.gasgovernance.co.uk/0849

Objective 8: Facilitate deployment of low carbon technology

8.1: Establish and oversee a regulatory regime for nuclear power

We do not think this objective currently has policy that is to be implemented through codes.

8.2: Regulate carbon capture, usage and storage

We do not think this objective currently has policy that is to be implemented through the codes, but we will continue to keep this position under review. A new code, the carbon capture and storage (CCS) Network Code, has been developed as part of the government's process of creating the economic regulatory and licencing regime for carbon dioxide transport and storage networks, which Ofgem is responsible for regulating. In accordance with the Energy Act 2023, the CCS Network Code cannot be considered a "designated document" for the purposes of the reforms to code governance. However, in the course of us exercising our role with respect to the CCS Network Code we expect to have regard to the content of this preliminary SDS and any future SDS, where appropriate.

8.3: Develop new hydrogen transport business model

Listen & wait category

Relevant codes

This content is relevant to the following codes:

IGT-UNC

UNC

Unknown

Policy context

This objective contributes to the Low-cost transition pillar of Ofgem's Consumer Interest Framework.

The government is committed to developing a low-carbon hydrogen sector in the UK. Transport and storage infrastructure will be critical for the development of the UK's hydrogen economy and is considered essential to helping contribute towards meeting decarbonisation targets, including the Clean Power by 2030 ambition. Ofgem's Multiyear Strategy is reflective of this and includes objectives to provide advice and support to

government in support of hydrogen, building on our support for the design of the Hydrogen Transport Business Model. In June, the Spending Review confirmed £500 million has been allocated for hydrogen infrastructure, including funding the next Hydrogen Allocation Rounds (HARs). Government has recently published its Hydrogen strategy update to the market: July 2025, which includes a further update on hydrogen transport and storage infrastructure.

Code changes

Hydrogen falls within the definition of a "gas" in Part I of the Gas Act 1986. This means that many of the legal obligations set out in Part I of this Act which apply to natural gas also apply to hydrogen. The government recently published a consultation on the economic regulatory framework for 100% hydrogen pipelines, where it set out a minded-to position that a new network code should be developed for 100% hydrogen pipelines. At this stage, we do not anticipate changes to the existing gas codes will be required.

Funding hydrogen infrastructure – the Gas Shipper Obligation

Act now category

Relevant codes

This content is relevant to the following codes:

UNC

Policy context

The government outlined its intention to introduce the Gas Shipper Obligation (GSO) in a consultation running from January-April 2025; a consultation response is expected later in 2025. The GSO would be a levy on licensed gas shippers in GB to fund low carbon hydrogen production projects subsidised by the Hydrogen Production Business Model. The government intends for the GSO to be introduced in 2027, subject to legislation being in place.

Code changes

The implementation of the GSO in GB may require modifications to the UNC to facilitate data sharing among relevant stakeholders (eg Xoserve and the GSO administrator). It should be noted that the specific elements of these code modifications are, however, subject to further work being carried out by government.

Once government has finalised the GSO policy, the necessary legislation and modifications to the UNC would be drafted and (subject to the outcome of any requisite consultation process), subsequently implemented.

8.4 Support the development of long-duration electricity storage

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

Unknown

Policy context

This objective contributes to the Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Long-duration electricity storage (LDES) will be a key part of a decarbonised electricity grid, as we work towards CP2030 targets. Following the previous government and Ofgem's Smart Systems and Flexibility Plan in 2021, the government consulted on using a cap and floor regime to encourage investment in LDES assets. In October 2024, the government confirmed its intention to introduce a cap and floor regime for LDES with Ofgem acting as the regulator.

We are currently working towards making Long Duration Electricity Storage (LDES) assets operational by 2030. The application window for the cap and floor regime is now open, and we are actively consulting on the project assessment and financial framework. We remain confident in our ability to meet the target of awarding the first cap and floor agreements by summer 2026.Our planning assumes that a small number of projects could become operational as early as 2029. This would provide valuable lead time to progress the necessary code modifications. We are aiming to finalise these modifications by the end of this year and are currently engaging with relevant experts to streamline the technical aspects of these changes.

Code changes

We expect that the introduction of this regime may require code changes to the BSC and the CUSC. Changes to the BSC may be required to enable LDES to be recognisable

separately to any other kind of storage asset in the Balancing Mechanism and/or Contracts for Difference regime. Changes to the CUSC may be necessary to enable LDES cap and floor costs to be reflected in Balancing Services Use of System or Transmission Network Use of System Charges. We are currently consulting on the use of TNUoS or BSUoS as charging mechanism options.

We will continue to engage with stakeholders, including code parties as appropriate, as our thinking develops with the intention of understanding the scope of code changes required by summer 2026.

Objective 9: Network performance and connections

9.1: Use our regulatory tools to ensure high quality service and supply

We do not think this objective currently has policy that is to be implemented through codes.

9.2: Enable faster electricity network connections

Act now category

Relevant codes

This content is relevant to the following codes:

CUSC

DCUSA

STC

Unknown

Policy context

This objective contributes to the Low-cost transition and Resilience pillars of Ofgem's Consumer Interests Framework.

At present, it takes too long to connect the generation and demand needed to meet net zero. The connections queue contains far more generation and storage capacity than GB will need by 2050 (modelled by NESO: Future Energy Scenarios). This means viable projects needed for net zero are being held up behind speculative, stalled or unviable projects. To address this, Ofgem recently approved NESO's connections reform proposals

impacting both transmission and distribution connected customers.[20] These reforms will improve the connections process and result in a more streamlined queue that aligns connection offers with what is needed to achieve CP2030 and ultimately net zero.

Further action is underway to ensure the connections process enables timely electrification and delivers on government's Industrial Strategy driving economic growth across GB.

Code changes

In April 2025 we approved important changes to the CUSC and STC to enable this reformed 'first ready and needed, first connected' connections process. Within the CUSC, code modification CMP434 was raised to update the existing processes and to enable projects that are sufficiently ready to receive an offer to connect to the grid. Similarly, within the STC, CM095 was raised to assist with implementing connections reform.

In the CUSC, CMP435 has been raised to address the size and rate of growth in the connections queue by applying new threshold criteria to all existing contracted parties before connection dates and locations are confirmed. CMP434, CMP435 and CM095 are collectively crucial to the delivery of the reformed 'first ready and needed, first connected' connections process. Accordingly, these strategic modifications were approved on 15 April 2025.

In addition, we approved a further complementary change to the CUSC (CMP446) which raises the lower threshold for the evaluation of transmission impact assessment and supports the goal of accelerated connection dates for smaller connections. CMP448 has also been raised to introduce appropriate financial requirements on developers to incentivise the timely removal of unviable projects from the connections queue. This is currently the only strategic modification complementary to wider connections reform that is at work group stage and that requires fast progression to align with the implementation of the new process.

Rapid implementation of the new connections process and the production of offers for projects needed to enable CP2030 is now the clear priority. In the future we expect NESO's Connections Methodologies, rather than codes, will provide the detailed criteria governing how NESO and network companies should operate within the new proposed connections process. The Methodologies are referenced in the new code requirements

[20] Transition to Connections Reform | National Energy System Operator

and would set out how projects are assessed, prioritised and provided with connection offers that align with CP2030.

The first iteration of these Connections Methodologies has been approved by Ofgem and NESO will update them, at least annually, subject to consultation, scrutiny and approval by Ofgem. Accordingly, the Connections Methodologies provide a platform to deliver future policy changes; the connection of strategic demand is an example of one area where government, Ofgem and industry is likely to collectively explore the case for further change to support the government's growth agenda.

Our expectation is that there must be sufficient flexibility in licences and codes to adapt to evolving public policy and published strategic plans within transparent, but pragmatic, parameters. NESO maintained Methodologies now allow such flexibility. Providing for these Methodologies in codes and licences now enables NESO to deliver its enhanced role of coordination of energy system planning and work more quickly to implement future connections reforms, if needed, to align with future energy system plans, mitigate the risk of the connection queue growing to unsustainable levels again in future and ensure the connections process supports investment and economic growth.

Our end-to-end review of obligations and incentives on network companies will also play an important and complementary role to these reforms by ensuring wider connections regulation keeps pace with reforms and sets an appropriate framework of incentives for all parties in the connections process. Following our consultation which closed in February we will respond with next steps in summer 2025.

Rollout of Low Carbon Technology

Act now category

Relevant codes

This content is relevant to the following codes:

DCUSA

REC

Policy context

This objective contributes to the Low-cost transition and Resilience pillars of Ofgem's Consumer Interests Framework.

As well as the generation and storage connection reforms needed to deliver CP2030, it is crucial the network connections process does not slow down the rollout of Low Carbon Technology in homes and businesses, including heat pumps and EV charge points. Currently, connecting to the network can significantly delay installations for some customers, and distribution network operators (DNOs) face growing pressure on their resources and operations.

Code changes

The codes govern which parties are allowed to work on connections, including who can isolate the property from the network to facilitate an installation and which parties can upgrade the capacity of the property's connection, if needed. Increasing the number of third parties able to provide these services could speed up connections for customers making the switch to electric heating and transport. RECCo is currently considering reforms to the Safe Isolation Provider (SIP) role, to make it easier to become accredited as a SIP. These changes will be implemented with appropriate engineering oversight to ensure safety, consistency, and system integrity. Delivering this change through a modification to the REC could speed up connections and reduce the risk of parties isolating supplies without the proper accreditation.

In 2022-23, UKPN trialled allowing trained, accredited third-parties to safely increase the capacity of a property’s electricity supply by replacing or upgrading certain fuses on its network, as part of heat pump and EV charge point installations. The trial found connection upgrades were delivered faster than benchmarks, and some upgrades could be carried out on the same day as installing the LCT, resulting in a quicker install and better customer experience. One option could be a modification to the DCUSA to roll out a similar solution across GB, with potential to accelerate some LCT installs held up by connection delays.

Objective 10: Secure and resilient supplies

10.1 Pursue security of supply

This objective contributes to the Low cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Security of supply

Listen & wait category

Relevant codes

This content is relevant to the following codes:

SQSS

Unknown

Policy context

Security of supply is a critical part of ensuring the energy system is delivering for consumers. Our net zero decarbonisation goals will shift the energy system towards more renewable and distributed assets. More renewable generation can help displace more expensive, high-carbon technologies, but their more intermittent nature requires other interventions to ensure security of supply at times when there is limited wind and sun. Long duration flexible capacity (capacity that can be increased or decreased for prolonged periods so that supply matches demand) will remain vital for security of supply.

We are considering potential supply issues in the transition to CP2030 and have sharpened our focus by conducting our own medium and long-term assessments of supply risks to consumers. A pressing challenge for maintaining security of supply is the risk of some existing capacity going offline before low-carbon flexible alternatives are available at scale. We are working with government, who is ultimately responsible for security of supply policy, and NESO to determine how we can maintain the security of our electricity supply and build a resilient decarbonised system. It is also important to consider those pieces of critical national infrastructure that are essential for ensuring security of supply. As the risk landscape changes it is important that due consideration is given to assuring the resilience of these sites to current and future hazards and threats.

There are a number of means by which the needs of the system for long duration flexible capacity can be satisfied including storage, hydro, nuclear and gas generation. While gas

generation could also include carbon capture and hydrogen, this category also needs to be read in conjunction with the future of the gas networks (objective 7).

Code changes

In May 2025, government concluded its consultation and call for evidence on security of supply and decarbonisation, proposing a number of changes to the Capacity Market to retain the flexible generation capacity required to maintain the security of our electricity supply in the short-term, and to support the conversion of unabated gas plants to low-carbon technology. Changes to the Capacity Market are not likely to require code changes but will be implemented by amendments to the Capacity Market Rules and Capacity Market Regulations. Nevertheless, this is an ongoing priority and it is too early to say whether further action will be required (if any).

Frequency Risk and Control

Think & plan category

Relevant codes

This content is relevant to the following codes:

SQSS

Policy Context

In August 2019, there was a near-simultaneous loss of two large generators and consequential losses of Distributed Energy Resources (DER). These combined power losses went beyond the back-up power generation arrangements that NESO had in place to keep the system stable, resulting in a significant frequency event. This triggered the disconnection, loss of power and disruption to more than one million customers.

Both our and the government's Energy Emergencies Executive Committee investigations into the incident[21] required NESO, in consultation with industry, to undertake a review of the Security and Quality of Supply Standard (SQSS) requirements for holding reserve, frequency response and system inertia. In December 2020, we approved SQSS modification GSR027 to review the SQSS Criteria for Frequency Control that drive reserve, response and inertia holding on the GB electricity system. GSR027 made changes to sections of the SQSS governing how NESO secures against frequency

[21] GB power system disruption on 9 August 2019: Final report

deviations, introducing the requirement for an annual Frequency Risk and Control Report (FRCR) governing NESO policies on securing against frequency deviations.

Appendix H of the SQSS sets out the process for production of a periodic FRCR report, detailed requirements and obligations on parties involved in this process. Under this arrangement, the SQSS Panel is required to review and approve the FRCR Methodology and the annual FRCR Report before NESO subsequently submits it to the Authority.

Code Changes

As part of FRCR 2024, several SQSS Panel members suggested that the obligation to produce the FRCR may better fit under a new NESO License Condition rather than an Annex to the SQSS. This reflects that although the SQSS sets the principles and the rules of planning and operation, it does not detail how they are discharged. To address this, NESO are engaging with the Authority, the SQSS Panel, and the wider industry. Any necessary changes to the SQSS will follow the existing governance route.

Grid Forming

Think & plan category

Relevant codes

This content is relevant to the following codes:

GRID CODE

D-CODE

Policy context

The rise of renewable energy sources connected to our electricity system, alongside a drive to reduce carbon emissions, has resulted in the replacement of synchronous generators used in conventional fossil fuel power stations with non-synchronous generators. These generators are used by all renewable energy sources, primarily using electronic power converters.

One of the challenges associated with this change is that electronic power converters do not have an inherent capability to supply inertia, short circuit power or damping power. These capabilities provide the ability to respond quickly to changes or disturbances in the electricity system and are required for its stability and to ensure security of supply. The electricity system has very finely tuned operating margins meaning that disturbances need to be corrected rapidly to avoid consumers and generators being disconnected.

A converter with Grid Forming capability behaves in a similar manner to a synchronous generator by providing greater control over non-synchronous generators to support system stability when using low carbon energy sources. In 2022, GB was the first country in the world to include Grid Forming capability in its Grid Code (GC0137). Following this, NESO published a GB Grid Forming Best Practice Guide in April 2023.

Code changes

Building on feedback on the GB Grid Forming Best Practice Guide, and experience of the first GC0137-compliant Grid Forming units and stability pathfinder projects, NESO has set up an expert group to consider next steps on Grid Forming requirements. Work is expected to commence on drafting a solution in 2025, which will likely lead to the proposal of further code modifications to the Grid Code, the code applying to transmission connected parties and those with connection agreements with NESO that sets the technical specifications for equipment connected to the system. While Grid Forming is currently non-mandatory, consideration may need to be given to whether similar requirements need to also be added to the Distribution Code.

Ramping Arrangements

Listen & wait category

Relevant codes

This content is relevant to the following codes:

GRID CODE

Policy context

There are currently restrictions in place for how quickly generators and interconnectors can alter their power output, these are provided for within the Grid Code. This helps with system balancing, ensuring that changes in power are manageable, particularly where changes could occur simultaneously. Higher ramping rates can be beneficial, particularly as they provide greater flexibility, but when set too high they present an operational risk to the system operator and cost to the consumer.

Following implementation of GC0154, which codified the ramp rates of Interconnectors (as required under the System Operator Guidelines Regulation), NESO has begun assessing the impacts of the current ramp rates (of all technologies) on system operability and cost. We support NESO in its ongoing consideration of the balance between the risks and benefits of flexibility in changing of market position for market

participants and the system operator. Ensuring this balance is struck correctly can maximise consumer benefits by minimising the costs of ensuring a secure system.

This work is at early stages of discovery, but does build on previous work such as that conducted for GC0154. However, we understand that current work has expanded scope, considering the impacts of ramp rates across all technologies.

Code changes

Ramp rates are currently set out within the Grid Code. Any changes to ramp rates would need to be codified. At this stage we consider that changes are most likely limited to the Grid Code, but this remains subject to the outcome of any developments from NESO's investigatory work.

Given the early stage of this work there are a range of implementation approaches, for example, more simple versions including updating current codified values through to more complex approaches which would set dynamic ramp rate limits.

10.2 Implement monitoring to ensure that non-retail regulated network companies are financially resilient

We do not think this objective currently has policy that is to be implemented through codes.

10.3 Strengthen cyber resilience

Listen & wait category

Relevant codes

This content is relevant to the following codes:

Unknown

Policy context

This objective contributes to the Resilience pillar of Ofgem's Consumer Interest Framework.

GB boasts a reliable, resilient energy system. As the sector digitalises and decentralises we need to ensure that our infrastructure remains resilient.

Ofgem is currently working alongside DESNZ, NESO and the National Cyber Security Centre (NCSC) on a revised energy cyber resilience strategy. As part of this strategy, we will be reviewing our approach for energy cyber security on a system level. We intend to consult on appropriate and proportionate cyber resilience for energy system operators

that currently have no cyber resilience coverage in legislation[22], as well as on available vehicles to achieve cyber security objectives for these operators. While industry codes are being considered, Ofgem's initial assessment is that other mechanisms may be more effective in achieving our cyber security objectives. Ofgem is working closely with DESNZ to determine the best path forward and plans to engage with the industry stakeholders as policy options develop further.

Code changes

We are examining the need for code changes in the future and will keep industry engaged in developments in this space. Our initial assessment indicates that other vehicles may be better suited for delivering our policy intent on cyber resilience.

10.4 Build resilience to extreme climate events and long-term climate change

Think & plan category

Relevant codes

This content is relevant to the following codes:

GRID CODE

SQSS

D-CODE

UNC

Policy context

This objective contributes to the Resilience pillar of Ofgem's Consumer Interest Framework.

Climate change related hazards, such as extreme temperatures, storms and flooding, will increasingly impact the GB energy system. The transition to a decarbonised energy system will influence its vulnerability to climate hazards. For example, we must consider how to ensure a reliable energy supply as electricity demand and generation becomes increasingly weather dependent.

The energy system should be resilient to climate impacts to an acceptable level. The National Infrastructure Commission, now National Infrastructure and System

[22] The Network and Information Systems Regulations already cover the most critical energy operators

Transformation Authority (NISTA), made recommendations to DESNZ and Ofgem in its publication Developing resilience standards in UK infrastructure report to identify whether further standards are required to ensure the energy system is resilient and adequately considers changes in climate related threats.

There is an urgency for ensuring resilience to climate impacts over the long term. Ofgem is working closely with DESNZ and other key stakeholders, including NESO and industry, to understand the current climate resilience landscape to clarify objectives and targets for climate resilience. However, this is not trivial, requiring approaches for monitoring and valuing resilience. HM Treasury's 10 Year Infrastructure Strategy and Cabinet Office's Resilience Strategy set out a government roadmap for establishing resilience standards by 2030, with a mapping of existing resilience standards by 2026. NESO will also produce "Energy Resilience Assessments", including consideration of the energy system's exposure to climate related risks, as part of licence conditions for energy resilience and reporting. We need to ensure that our energy system remains resilient as the system itself changes as a result of the energy transition, and to face new and emerging threats, notably climate hazards. Ofgem and NESO will work with industry to identify the need and urgency of code changes, alongside wider work to this end, in line with the 'Think and plan' time horizon.

Code changes

Future policy decisions may require code modifications for transporters and those with responsibilities for security of supply. If code changes are required in future, we expect that the Grid Code, SQSS, UNC and Distribution Code may require modification.

Section 4: Establishing an efficient, fair and flexible energy system

How the energy system operates is changing rapidly and we know that our market and regulatory approaches will need to adapt to deliver a net zero energy system. A renewables dominated system will require us to be more flexible in how we use energy, including by incentivising use away from peak times. Further, across the system, digitalisation is increasing, including the transformative use of Artificial Intelligence (AI). This will improve our ability to plan and enable flexibility, but also raises questions about how we manage this digitalised, data-rich system.

Objective 11: Ensure the right governance and institutions are in place

11.1: Regulate National Energy System Operator

We do not think this objective currently has policy that is to be implemented through codes.

11.2: Reform energy code governance to enable faster, more strategically aligned rule changes across the sector

Act now category

Think & plan category

Listen & wait category

Relevant codes

This content is relevant to the following codes:

ALL

Policy context

This objective contributes to the Fair prices and Low-cost transition pillars of Ofgem's Consumer Interest Framework.

Energy code reform is a joint project between Ofgem and the government to ensure that industry 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 and uptake of low-carbon technologies, including EVs and heat pumps.

The Energy Act 2023 ('the Act') enabled these reforms by establishing a new code manager licensing regime and granting Ofgem new strategic code functions,[23] including:

- The obligation to publish an annual strategic direction statement.
- The power to select and license code managers.
- The power to make direct code changes under specific circumstances.
- The power to issue enforceable directions to central system delivery bodies (CSDBs).

In addition to expanding Ofgem's regulatory remit, the Act also granted Ofgem transitional powers for a period of up to seven years to implement these reforms, starting from October 2023 or, until the specified code is designated by the Secretary of State.

Once implemented, the current system of industry governance that relies on a mixture of code administrators and panels will be replaced by a new licensing regime for 'code managers', who will be responsible for, among other things, making sure that the codes develop in line with the SDS.

We expect to complete the transition to the new code governance framework in three phases, with some overlap likely between the end of one phase and the start of the next. Each of these phases will focus on a sub-set of codes, as listed out below:

- Phase 1: BSC and REC.
- Phase 2: a consolidated gas network code (consisting of the UNC and IGT UNC) and a consolidated electricity commercial code (consisting of the CUSC and DCUSA).
- Phase 3: a consolidated electricity technical code (consisting of the Grid Code, Distribution Code, STC and SQSS) and SEC.

During this period, code modifications will be required to all eleven gas and electricity codes. These changes will enable Ofgem to implement beneficial changes to existing code governance processes prior to licensing the first code managers, as well as implement new strategic code functions, the new code manager arrangements, and code consolidation.

[23] As set out in the Energy Act 2023 Part 6.

We anticipate that all of the code modifications essential for implementing the reforms will be implemented by Ofgem using the transitional powers for code reform granted to it by the Act. We expect to set out a programme of work for developing these modifications in collaboration with industry stakeholders, which will span all three time horizons, as described below.

Bring forward the benefits of code reform

Act now category

Relevant codes

This content is relevant to the following codes:

ALL

Code changes

Most of the benefits of code reform will start to be realised once we have transitioned to the new enduring governance framework, enabled by the Act, which will happen on a code-by-code basis when the code manager licence is granted for each code. In advance of this, we are proposing to bring forward some of the benefits of reform by making changes to the current governance arrangements, subject to consultation:

- Prioritisation: We are proposing to introduce a process that aims to extend and harmonise the ability of code panels to prioritise code modifications against a set of criteria that is consistent across all codes. This is intended to promote more efficient governance of code arrangements, prioritise change across the existing codes, support the introduction of the SDS and facilitate a smoother transition for incoming code managers.
- Net zero objective: We are also proposing to modify relevant licences and codes to introduce a new net zero code objective. This proposal reflects the importance of embedding consideration of tangible progress to carbon budgets and net zero objectives in industry code governance.

If we decide to take these proposals forward, we anticipate that they will be implemented using the transitional powers granted to us by the Act to implement code reform, supported by industry expertise and engagement.

Implement Ofgem's new strategic functions and transition to code manager arrangements

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

REC

Unknown

Code changes

Implementing the new code governance framework will require a wide range of modifications to be made to relevant licences and codes during each phase of the transition process. Some of these changes will be required to support the implementation of Ofgem's new strategic functions, such as its ability to issue directions to CSDBs, whereas others will be necessary to embed the new code manager arrangements.

Phase 1 of the transition will focus on the BSC and REC. We expect that code and licence modifications may be required in connection with the following areas, all of which we anticipate that Ofgem will implement using transitional powers granted by the Act:

- Implementing Ofgem's new strategic functions, such as ensuring that CSDBs have an appropriate cost recovery framework in place so that they can comply with any directions issued by Ofgem.
- Implementing the new code manager licensing regime, which may require consequential changes to the relevant codes to ensure alignment with the licence (such as potential impacts on cost recovery mechanisms, budgeting etc.)
- Establishing Stakeholder Advisory Forums, which will consist of a fixed membership of stakeholders and independent parties acting impartially, plus a pool of additional members.
- Updating code modification processes and associated governance arrangements.
- Subject to consultation, adding a standard condition to all existing licence types to cooperate with code managers where reasonably requested.
- Consequential changes required in connection with the above, or other elements of the reform process.

We intend to consult on relevant policy and modification proposals throughout the course of Phase 1, with those modifications then expected to come into effect alongside the grant of the relevant code manager licences.

Implement Ofgem's new strategic functions and transition to code manager arrangements

Think & plan category

Relevant codes

This content is relevant to the following codes:

CUSC

DCUSA

IGT-UNC

UNC

Unknown

Code changes

Phase 2 of the transition will focus on embedding the new governance framework within the consolidated commercial code (consisting of the CUSC and DCUSA) and the consolidated gas code (consisting of the UNC and IGT UNC). We expect that code modifications will be required in connection with all of the areas identified for Phase 1 above and that Ofgem will implement those modifications using transitional powers granted by the Act, supported by industry expertise and engagement.

Consolidate codes

Think & plan category

Relevant codes

This content is relevant to the following codes:

CUSC

DCUSA

IGT-UNC

UNC

Code changes

We consider that targeted code consolidation will contribute towards reducing the complexity and fragmentation of the current code framework. It should also make it easier for market participants to engage with and understand the codes, facilitate the delivery of strategic change, enable the codes to be more agile and adaptable to future market arrangements, and support the implementation of the new code governance arrangements.

In relevant phases of the transition, consolidation activities will require code modifications. We expect that Ofgem will lead the work on these modifications, supported by industry expertise and engagement.

We intend for any Ofgem-led modifications to be limited in scope, with a focus on consolidating the following list of governance provisions (where relevant and appropriate) using the transitional powers granted to us by the Act:

- Common contractual framework
- Contract boilerplate and defined terms
- Party accession and exit
- Code objectives
- Code modification process
- Code compliance
- Credit cover arrangements
- Dispute processes
- Derogation provisions

This work will form the first stage of a longer-term exercise to rationalise and simplify the codes, which will be continued by code managers once they are in place.

We expect to provide further detail on the sequencing and steps involved in all three consolidation exercises during Phase 1 of the transition. We then intend to consult on relevant policy and modification proposals throughout the course of Phase 2 and Phase 3, with those modifications expected to come into effect alongside the grant of the relevant code manager licence.

Implement Ofgem's new strategic functions and transition to code manager arrangements

Listen & wait category

Relevant codes

This content is relevant to the following codes:

D-CODE

GRID CODE

SEC

SQSS

STC

Unknown

Code changes

Phase 3 of the transition will focus on embedding the new governance framework within the consolidated technical code (consisting of the Grid Code, Distribution Code, SQSS and STC) and the SEC. We expect that code modifications will be required in connection with all of the areas flagged for Phase 1 above and that Ofgem will implement those modifications using transitional powers granted by the Act, supported by industry expertise and engagement.

Consolidate codes

Listen & wait category

Relevant codes

This content is relevant to the following codes:

D-CODE

GRID CODE

SEC

SQSS

STC

The objectives, processes and scope of consolidation during Phase 3 of our reforms will be the same as those outlined above for Phase 2 (in the "think and plan" category).

Objective 12: Deliver effective and efficient market incentives and signals

12.1: Work with government to deliver reforms which set efficient locational incentives for investment and operation across the energy system

This objective contributes to the Fair prices, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Review of Electricity Market Arrangements

Listen & wait category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

Unknown

Policy context

In 2022, the government launched a Review of Electricity Market Arrangements (REMA) to consider how best to meet our decarbonisation targets while maintaining security of supply and delivering the most cost-effective system for consumers.

During their summer update, DESNZ shared the outcome of REMA. It has been decided to retain a single national GB-wide wholesale market and introduce a package of reform to improve the efficiency of the future power system. The package of reforms DESNZ shared in their announcement will deliver a more strategic and coordinated approach to the energy system, make siting of new assets more effective and improve overall operational efficiency, while also increasing stability and certainty for investors. As set out in our open letter, we will reform network charges to make them more predictable and compatible with strategic planning. Ofgem will help implement the new suite of market arrangements and will also be responsible for implementing any changes to codes and licences, ensuring NESO proposes relevant changes to balancing arrangements.

Code changes

Code modifications are expected to be required as part of the REMA programme. Further investigation is needed to understand implications for institutional and governance

frameworks, including potentially for the duties and functions of Ofgem, NESO and other energy sector bodies. This will be considered further as part of the REMA Programme. Later this year, DESNZ will publish a Reformed National Pricing Delivery Plan, setting out the next steps on design and delivery. We currently anticipate there could be significant changes to the BSC and CUSC. The impact on other codes will be determined once government publishes its delivery plan.

Local Energy

Listen & wait category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

DCUSA

REC

Policy context

Last summer, the UK government founded Great British Energy[24] (GBE) – a new publicly-owned energy company that is at the heart of government's mission to make Britain a clean energy superpower. One of GBE's five functions is to support delivery of the Local Power Plan. GBE will enhance support for local and community energy by partnering with local government, community energy groups and devolved governments. In support of the Local Power Plan, GBE will provide funding and support to local and community energy stakeholders, helping to increase the roll-out of renewable energy projects.

Local energy schemes are varied in terms of ownership arrangements, objectives and structure, extending from local renewables with power production to smart local energy systems which incorporate supply and local trading. Most are electricity focused, although smart systems are increasingly extending into the built environment, heat, waste and transport vectors. Depending on the type of scheme and local circumstances, benefits could include reducing system imbalance, better managing network constraints,

[24] The Great British Energy Act 2025 received Royal Assent on 15 May 2025, providing the statutory footing needed to deliver on its ambitions.

facilitating higher consumer engagement, and lowering bills. However, enabling local energy at scale will have implications for current market and regulatory arrangements.

Ofgem is working alongside government to consider how the regulatory framework (licensing and codes) affects government's aspirations for local energy, building on the significant work already underway to decentralise the energy system and introduce greater strategic spatial planning. The introduction of the Regional Energy Strategic Plans will ensure there is coordination between spatial and energy system planning and enable the reflection of local energy plans in the development of the distribution system.

Subject to the extent of government's Local Power Plan ambitions and the type of local energy schemes in scope, enabling the growth of local energy at scale could have wider regulatory implications affecting the rules governing electricity supply, network connections and charging, strategic spatial planning, constraints management, and system balancing.

Code changes

It is not possible at this stage to identify the specific measures that will be required to enable accelerated and effective deployment of local energy. We do, though, expect that code modifications will likely be needed, which could include changes to the BSC, REC, CUSC and DCUSA.

12.2: Introduce low-regrets near-term reforms to support system efficiency

Act now category

Think & plan category

Listen & wait category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

DCUSA

Policy context

This objective contributes to the Fair prices, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

The government is seeking to accelerate the UK's energy transition, bringing forward the target to decarbonise the power system from 2035 to 2030. We recognise the need to ensure that charging arrangements are not a barrier to the clean power transition, and that they should send coherent investment signals alongside market arrangements and Contracts for Difference (CfDs).

The delivery of investment signals to network users could, as part of a wider set of investment and separate operational signals, lead to more efficient network build and lower system costs. In particular, our reform programmes on Transmission Network Use of System (TNUoS) Charges and Distribution Use of System (DUoS) Charges consider the role of network charges in current and future system conditions.

In September 2024 we indicated that we saw some merit in exploring whether, and the extent to which, the introduction of different cap and floor structures could mitigate some of the uncertainty arising from an unpredictable (over the longer-term) TNUoS charge. However, having considered stakeholder feedback, and after assessing the detailed proposals and the evidence presented to us by industry, we do not currently consider that either the original or any of the alternative options would better facilitate the achievement of the Applicable CUSC Objectives (ACOs) compared to the baseline. We published our minded-to consultation to reject the proposal on 10 July 2025.

Government have now published their decision on REMA, to retain a single national GB-wide wholesale market and introduce an ambitious package of reform to improve the efficiency of our future power system. The Strategic Spatial Energy Plan (SSEP) will be at the core of the reformed national package with network charging being one of the key drivers to align with strategic planning. Therefore, significant reforms will likely be required to ensure complementary electricity network charging regimes, for both transmission and distribution charging.

Progression of the DUoS Significant Code Review, launched in February 2022, and subsequent industry engagement is dependent on the outcome of market and transmission design choices. Additionally, given the role of the distribution network in the energy system, changes relating to market design and developments in the future of retail arrangements should include engagement with DUoS.

It is also important that we ensure that wholesale markets and the Balancing Mechanism work as effectively and efficiently as possible in consumers' interests, by engaging with and progressing relevant modification proposals to the Balancing and Settlement Code (BSC), as raised by stakeholders.

Act now category

Code changes

DCUSA modifications over the coming 18 months will remain industry led and focus on improving the functionality and practicality of DUoS charges. We anticipate modifications will continue to implement past reform work and reflect wider Ofgem approaches to delivering improvements to consumers and the cost recovery approach.

There continues to be a significant number of CUSC modification proposals at varying stages of the process, and we continue to take an active role in CUSC Panel discussions as to the relative priority of each proposal. In government's REMA decision, they indicated that they are ready to support the necessary code modifications through primary legislation, by potentially conferring time-limited powers on Ofgem to make the necessary changes to the codes and/or licences, and as such we envisage reforms being Ofgem-led rather than industry-led.

We recognise that there are live proposals which might be capable of near-term implementation. We are mindful however of the potential to layer change upon change in the context of broader reform and therefore plan on (alongside the CUSC Panel)

reviewing current proposals and whether the extent to which they deal with matters that are under question more broadly in the context of REMA.

We anticipate that industry's time and resources, as well as our own, would be best deployed in considering the long-term transmission charging arrangements rather than dealing with narrowly focused proposals focused on the near-term, and we would therefore hope that in the circumstances that any new charging-related CUSC modification proposals would be discussed with Ofgem prior to being raised. We may deprioritise proposals if we consider that they are not either dealing with pressing matters; or clearly linked to the overall reform programme required in transmission charging.

Work is ongoing on some industry-led BSC modification proposals aimed at improving the efficiency of the wholesale electricity market and the Balancing Mechanism. We expect these to be progressed and where relevant sent to us for decision within the next 12 months.

Think & plan category

Code changes

Given the current landscape of DUoS code modifications, there are currently no workstreams confirmed for implementation or development between 2 to 3 years from now. We anticipate that this context will evolve in the coming years as market design and transmission reforms continue to progress.

We anticipate that stakeholders will raise modification proposals to the BSC to ensure markets work fairly and efficiently in the overall interests of consumers, amid an evolving market landscape and shifts in the generation mix.

Listen & wait category

Code changes

The decision to retain a national wholesale market price under REMA and deliver a more strategic and coordinated approach to the energy system will directly impact the role of transmission and distribution charges. It is anticipated that changes to the CUSC and the DCUSA will be required to ensure electricity charging regimes complement the proposed wholesale market arrangements. Moreover, CUSC and DCUSA modifications will likely be required to implement changes to the charging regime, with transmission charging reform aiming to be delivered by 2029.

Objective 13: Enable consumer-focused flexibility

13.1: Unlock distributed flexibility and regulate load controllers

This objective contributes to the Low-cost transition pillar of Ofgem's Consumer Interest Framework.

To successfully make the shift away from fossil fuels and facilitate the deployment of low carbon technology (such as EV charge points and heat pumps) at low cost, we will need to ensure we can meet demand, even at times when there is limited wind and sun, and make best use of the energy produced when it is. Increasing the levels of low-carbon flexibility in the energy system is going to be essential to managing these challenges, enabling us to make the best use of our generation, network and consumer assets. This will help to keep costs down for us all, while maintaining a secure and stable energy supply. The government's new mission for Clean Power by 2030 only further emphasises the importance of such flexibility.

Distributed flexibility, where flexibility is provided by assets, such as EVs, heat pumps, solar PV and behind the meter batteries, connected to the distribution network, is a key source of increased low-cost system flexibility. Unlocking the value of distributed flexibility is a challenge that requires enabling consumers to individually use energy flexibly, at the best times for them and the system, while creating the infrastructure and markets to make it technically feasible – and ensuring the right consumer protections are in place. However, there remain a number of market access, coordination and broader barriers to distributed flexibility growing at the scale needed to support decarbonisation.

Market facilitator

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

D-CODE

DCUSA

GRID CODE

Policy context

We want to make it easier for flexibility service providers to access and participate in transmission and distribution markets. We are, therefore, creating a new market facilitator role, a single expert entity with a mandate to grow and develop local flexibility markets that are accessible, transparent and coordinated. The market facilitator will have responsibility for identifying and removing barriers to market entry and participation, to help unlock the full value of flexibility. It will be accountable for reducing friction across distribution markets and aligning distribution and transmission market arrangements. The market facilitator will support widening participation and increasing liquidity, which are necessary for flexibility to drive down system costs. We want the market facilitator to be fully operational by the end of 2025. As we set out in our July 2024 decision, we have appointed Elexon as the market facilitator delivery body.

Code changes

The activities that Elexon can perform are set out in Section C of the BSC. Therefore, an enabling modification was needed to extend Elexon's vires to take on the market facilitator role. The modification P481 'Enable Elexon to be the Market Facilitator Delivery Body' was raised by the Association for Decentralised Energy at the BSC Panel in September 2024. Ofgem made the decision to approve P481 in November 2024.

The enabling modification allows Elexon to establish the market facilitator role. A second modification will be required to embed the ongoing governance, operation and funding for the market facilitator in the BSC. These arrangements will be developed with stakeholders and through consultation. Licence conditions will be added to the Distribution Licence and NESO's Electricity System Operator Licence, to require their compliance with the market facilitator's flexibility market rules. The non-statutory consultation was published on 10 July 2025. The statutory consultation is due to be published in September, followed by a decision in December.

Since our decision to appoint Elexon as the market facilitator delivery body, we have been engaging with stakeholders on the detailed design of the market facilitator role, to inform our market facilitator policy framework consultation which was published in December 2024. Our market facilitator policy framework decision was published on 4 June 2025. The policy framework will help to inform the requirements for the second BSC modification, which will be developed and implemented in 2025.

As part of its mandate to align local and national flexibility market arrangements, in future, the market facilitator may identify that further code modifications are required, to the BSC, Grid Code, Distribution Code and DCUSA.

Interaction between aggregators/suppliers

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

Policy context

Alongside the market facilitator and other enabling workstreams, we have been considering the remaining barriers to distributed flexibility in legislative, regulatory and industry rules and markets.

The original design of markets and the associated rules set out in industry codes were not developed with the participation of distributed flexibility in mind, as a result they can sometimes act as a barrier. Over recent years, a number of code modifications have been proposed and, in some cases, implemented that seek to open markets to distributed flexibility via independent aggregators – for example P344 and P415. However, within both the BSC and when considered alongside changes in NESO or Distribution Network Operator (DNO) markets, these have tended to develop in a piecemeal manner.

Code changes

A number of stakeholders have called for a more holistic consideration of how markets should be opened up to aggregators and in particular what the interaction should be with suppliers, concerning imbalance correction and compensation. We support this idea and will work jointly with DESNZ to review how suppliers, aggregators and other non-licenced entities participate and interact in the market and report on our findings. We recognise that the recently formed BSC Issues Group 114[25] is looking at some of these points and we would welcome that group's engagement in our strategic work. We

[25] Elexon have set up an Issue Work group (Issue number 114) to consider "Issues relating to Settlement of ABSVD for ancillary services delivered through independent aggregators". The intention is for the group to look at issues relating to imbalance adjustment, including whether compensation payments should be made, when independent aggregators take actions in ancillary services - and potentially more widely. The first meeting of the Issue Group was held on 10 September 2024. See https://www.elexon.co.uk/smg-issue/issue114/

encourage this work to take a strategic view – whether best placed in this Issues Group or elsewhere. We expect in turn that this may lead to proposals for further code changes – for example in introducing or amending imbalance correction or compensation mechanisms.

Wider barriers to distributed flexibility

Act now category

Think & plan category

Relevant codes

This content is relevant to the following codes:

BSC

Policy context

As flexibility grows, with the growth of low carbon technologies and their capabilities (eg export capable technology such as EV Vehicle to Grid), the entry of aggregators and growing interest in more sophisticated tariff offerings, we expect that barriers to flexibility caused by BSC rules will emerge.

Code changes

Changes to the BSC are already underway to address some of these barriers to flexibility. For example, although providing flexibility in the Balancing Mechanism or Wholesale Market via asset metering is now possible through Virtual Lead Parties or Virtual Trading Parties, there is currently a rule which requires customers to be behind a half-hourly settled boundary meter. This can present a burden for independent aggregators who are not in control of a customer's settlement status.[26] Resolving this barrier could unlock significant additional consumer flexibility, particularly in advance of the completion of the broader market-wide half-hourly settlement programme. Code modification P483 is underway to address this barrier. We encourage the code administrator to work with industry stakeholders at pace, to explore whether a practical solution can be found to address the barrier.

[26] Aggregators note that the rule requiring a customer to be settled on a half-hourly basis disadvantages them because they cannot control this. Currently only the customer's supplier could register that customer for half-hourly settlement (through the elective half-hourly settlement process) and aggregators believe there is no incentive for the supplier to take this action on behalf of an aggregator.

In the future, we expect an important role for the future code manager will be to take a proactive role in identifying and tackling existing and emerging barriers to flexibility that relate to code rules, including driving forwards code modifications where appropriate. We would like the code manager to do this in a holistic way, working alongside NESO, the market facilitator, and industry more widely.

Ofgem, along with DESNZ, can contribute views on such barriers, and may provide additional strategic direction from time to time, but industry stakeholders will be best placed to identify the detail. We expect this is likely to be an ongoing process – with a programme of work over a period of years – to monitor and address barriers over time.

Smart Secure Electricity Systems

Act now category

Think & plan category

Relevant codes

This content is relevant to the following codes:

BSC

REC

Unknown

Policy context

In April 2024, DESNZ published its second consultation on its Smart Secure Electricity Systems (SSES) Programme (April 2024 SSES Consultation). The objectives of the programme are to facilitate the growth of Consumer-led Flexibility (CLF) in the domestic and small non-domestic sector through putting in place the legislation, technical and regulatory measures to protect consumers and provide a competitive flexibility services market, as well as to mitigate cyber security and grid stability risks.

The programme, led by DESNZ, consists of three key areas:

- The Licensing Regime where a load controller licence will be used to regulate relevant flexibility service providers and load controllers, introducing requirements to address key risks around consumer protection, cyber security and grid stability.

- Legislation to establish technical and security standards for Energy Smart Appliances that will be controlled directly and remotely to provide flexibility services.
- Establishing standards for tariff data interoperability to facilitate flexibility service provision.

A government response to the April 2024 SSES Consultation was published in April 2025. At present, there are three areas potentially requiring code modification, which are tariff data interoperability, enduring governance of SSES and grid stability requirements.

Tariff data interoperability

Act now category

Relevant codes

This content is relevant to the following codes:

REC

Code changes

Tariff data interoperability is an important enabler for widespread consumer participation in flexibility services and deriving best value for them. Within the April 2024 SSES Consultation, the REC was identified as the most appropriate code to house the tariff interoperability technical standard that is currently in development, as it covers both gas and electricity sectors and is consumer-focused. The REC also allows non-REC parties to raise amendments and to be involved in the modification process. To implement tariff data interoperability, modification of the REC will be required.

The government response to the April 2024 consultation set out that the government is committing to proceeding with Time-of-use Tariff Interoperability which, by mid to late 2026, will require energy suppliers to comply with a tariff data specification to be set out in the Retail Energy Code, so that ESAs can easily receive and respond to tariff information. We expect any code changes and accompanying licence condition changes to be led by DESNZ. Changes to the REC will be consulted on later this year.

Enduring governance of SSES

Think & plan category

Relevant codes

This content is relevant to the following codes:

BSC

Unknown

Code changes

DESNZ has confirmed in the response to the April 2024 consultation that an industry-led enduring governance body for SSES will be responsible for maintaining a set of technical and security frameworks for Energy Smart Appliances. The technical and security groups envisaged would help ensure energy smart appliances and load control licensees continue to meet interoperability, cyber security and grid stability standards, including protections against emerging risks. The response to the April 2024 consultation set out DESNZ's minded-to position for Elexon to deliver the necessary enduring governance functions through modifications to the BSC. Later in 2025, DESNZ will conduct a further consultation on this minded-to position and will provide more details on the functions to be delivered.

Grid stability requirements

Think & plan category

Relevant codes

This content is relevant to the following codes:

GRID CODE

Code changes

For consumer-led flexibility (CLF) to be effective, it is essential that participating in a CLF event does not cause unintended harm to the electricity grid. For Energy Smart Appliances, the government are introducing grid stability requirements as part of a new set of regulations, which will mandate devices to be configured to perform a randomised delay function under certain circumstances.

Although work is still ongoing to determine this, code modifications may be required to accommodate grid stability requirements on load controlling organisations. The

government is working with NESO and Ofgem to understand what grid stability requirements need to be captured in the load control licence, as well as understanding whether the introduction of such licence conditions will require changes to existing codes, such as the Grid Code. We will be consulting on draft licence conditions later this year.

13.2: Continue to drive the benefits of smart meters through regulatory oversight of roll-out and data flows

Smart metering and retail market operations

Act now category

Relevant codes

This content is relevant to the following codes:

REC

SEC

Policy context

This objective contributes to the Fair prices, Quality and standards, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Ofgem is responsible for regulating energy suppliers who must ensure the timely roll out of smart technology, such as smart meters, to support the country's shift to a cleaner, more flexible energy system. Digitalisation of meter reads will be a key benefit to consumers due to their ease of use and the development and adoption of future technologies based on granular data. This will allow customers access to new tariff offerings based on Time of Use and other metrics.

Code changes

Code modifications are primarily required to allow the Smart Energy Code (SEC) to provide oversight of smart meter data and communications and governance, both during the current roll out and on an enduring basis, as well as to support innovation. The SEC is the main code that's relevant to the ongoing provision of smart metering services, however, modifications to other codes may be required to facilitate the effective use of smart metering. We expect this might include changes to the REC to support the use of smart metering equipment for the identification and detection of energy theft, for example.

Code modifications will likely be directed by DESNZ and other parties. While there are ongoing obligations on suppliers to install smart meters and ensure they operate in smart mode, the current Targets Framework which sets out annual smart meter installation targets is currently set to end on 31 December 2025. DESNZ is considering the appropriate policy mechanism to further drive the smart meter rollout from 2026, in addition to the enduring obligations. Once there are firm proposals about how these changes may be implemented, this will be communicated to industry including timelines for potential code modifications.

The smart meter rollout is expected to transition in due course from the rollout phase to the enduring phase. As part of this, governance arrangements and industry codes will need to be amended to support oversight of smart meter data and communications services on an enduring basis. The role of the SEC and its administrator will need to evolve and adapt, which will require code modifications.

Ofgem's Multiyear Strategy highlights the smart meter rollout as a key priority. Smart meters will be a critical enabler of minimising the costs of the transition to net zero and allowing customers to better understand and control their energy usage.

13.3: Ensure successful rollout of Market-wide Half-hourly Settlement

Act now category

Relevant codes

This content is relevant to the following codes:

BSC

CUSC

DCUSA

REC

SEC

Unknown

Policy context

This objective contributes to the Low-cost transition pillar of Ofgem's Consumer Interest Framework.

In our April 2021 decision, we decided to introduce market-wide half-hourly settlement (MHHS). MHHS will ensure that electricity suppliers and other retailers face the true

costs of serving their customers throughout each half-hourly (HH) period. This will greatly strengthen the incentives on them to create new tariffs and products that encourage consumers to shift their consumption away from peak periods and promote the uptake of smart low-carbon technologies which are able to respond to market signals and load shift.

Load shifting at scale will incentivise more efficient use of the electricity system, in turn helping to integrate renewables and reduce the need for expensive new investment in power generation and network infrastructure. MHHS is, therefore, a key enabler for decarbonising the energy sector at the lowest cost to energy consumers. As part of MHHS, Elexon must establish a HH consumption data repository with third party access to it. Innovators and researchers will be able to use the data to create tailored products and services/inform public policy, to the benefit of consumers.

In our decision, we estimated quantified consumer benefits of £1.6bn to £4.5bn by 2045. It is essential that industry implements MHHS as soon as realistically possible so that these and other, unquantifiable, benefits can start to be realised. In November 2024, Ofgem decided to approve a proposal by the MHHS Programme Manager, Elexon, to delay MHHS 'go live' by 6.5 months.[27] The delay was unavoidable because system integration testing was well behind schedule. MHHS should start to deliver benefits from late 2025 and be fully implemented in 2027. Ofgem is determined that there should be no further delays in the delivery of this vital programme. To reduce this risk, in the first half of 2025 we issued directions to Elexon and the industry and amended the MHHS Governance Framework. We are now considering whether further regulatory incentives may be necessary to ensure that the migration phase of MHHS completes on time.

Code changes

At the operational level, MHHS will fundamentally change the industry's settlement systems and processes. These matters are set out in detail within the BSC, where substantial changes have been required. Other codes are also affected, namely the REC, DCUSA, SEC and CUSC. As MHHS Programme Manager, Elexon is required to identify and develop the code changes necessary to implement MHHS across all affected codes. Other code bodies are required to cooperate with Elexon to implement MHHS.

Elexon presented us with proposed changes to the BSC, REC and DCUSA in August 2024. In September 2024, Ofgem used its Significant Code Review (SCR) powers to raise

[27] Decision to Approve MHHS Change Request CR55 Amendments to M10 and Corresponding Milestones, Ofgem, November 2024.

modifications to these codes and, after a further round of industry consultation, we approved the modifications in November 2024. The changes will come into force on the date of the MHHS Programme Milestone M8, which will be shortly before the start of the migration of Meter Point Administration Number (MPANs) to the new MHHS arrangements.

Separately, Ofgem approved changes to the SEC and the CUSC in November 2022 and October 2024 respectively via 'business as usual' change management processes. The SEC change created a new DCC User Role for Meter Data Retrievers to allow independent agents to be able to access HH data from smart meters. The CUSC change rectified defects in demand locational Transmission Network Use of System charging that will become apparent during the MHHS migration phase.

Since Ofgem approved its SCR code modifications in November 2024, industry has continued to test the new MHHS systems and processes. This has led to some changes in the MHHS design. As a result, the BSC, REC and DCUSA are being further modified to align them with the updated MHHS design before MHHS 'go-live' in September 2025. In addition, changes to the BSC are required to establish a mechanism for pursuing rapid code changes in light of any 'system critical' design defects during the migration phase of MHHS, particularly during the 'Early Life Support' period after systems go-live. Ofgem is using its SCR powers to raise and implement all these changes in a timely manner.

At present, the industry is still testing the new MHHS systems and processes. Parties have not yet qualified to operate under the new arrangements. Migration for early movers is scheduled to begin in October 2025. It is possible that further code modifications will be required. If so, we may use our SCR powers to raise and implement them according to a timetable that expedites MHHS implementation. We will liaise as necessary with the code bodies and the MHHS Programme Manager.

Objective 14: Make a more digital energy system work for consumers

14.1: Set governance and standards to digitise system data and improve data sharing, and

14.2: Enable innovation across the sector

Act now category

Think & plan category

Relevant codes

This content is relevant to the following codes:

ALL

Policy context

This objective contributes to the Quality and standards, Low-cost transition, and Resilience pillars of Ofgem's Consumer Interest Framework.

As shown through the Energy Digitalisation Taskforce and the joint Ofgem/DESNZ/ Innovate UK (IUK) Digitalisation Strategy created under the previous government, we cannot achieve net zero without extensive digitalisation of the energy sector. The more effective our digitalisation efforts, the lower the cost to consumers. Considering this, and the roadmap in place to achieve CP2030, DESNZ, Ofgem and NESO have been working to improve how the energy sector collects, handles, shares, and utilises data to obtain best value for consumers. The government's recent Clean Power by 2030 ambition necessitates an accelerated timeline for digitalisation, which will align with the future requirements of the Data (Use and Access) Bill.

Our work focuses on three primary initiatives, each of which has a number of live or planned consultations[28]:

- **Data Best Practice (DBP)**
  DBP sets data standards and focuses on improving the openness, discoverability, and interoperability of data. The obligation to comply with DBP is scheduled to expand into industry codes.
- **Consumer Consent (CC)**

[28] Energy system digitalisation | Ofgem

CC enables consumers to share their data and take part in the net zero transition through a consistent and scalable system of granting consent for their data to be used.

- **Data Sharing Infrastructure (DSI)**
  DSI creates a safe, fast, and effective mechanism to share energy data between trusted organisations inside and outside of the energy sector.

Digitalisation must be considered as a whole, not in isolation, and we expect code administrators and CSDBs to collaborate to maximise the value of the data they collect, store, and utilise.

Code changes

Digitalisation work aims to align the use of data in industry codes with advances in the rest of the energy sector, such as the work led by networks and supported by suppliers, and voluntary adherence to DBP requirements by some CSDBs as well. DBP, CC and DSI are all aimed at creating an agile, data-driven system which values data as an enabler of net zero and whole system efficiency.

Act now category

- **Data Best Practice (DBP) Guidance**
  We propose that adherence to DBP Guidance will be an obligation under all existing licences by 2025-26. Implementing DBP Guidance involves changes to all codes, with the current policy ambition to make changes through licences with consequential changes imparting the obligation to follow DBP Guidance to all codes. These changes are aimed at CSDBs, code administrators, and other organisations that hold large datasets on behalf of industry. DBP creates a culture of open and interoperable data by default, ensuring the utility of energy data is maximised whilst protecting sensitive data through effective triage

- **Consumer Consent (CC)**
  We expect CC technical solutions to be deployed as minimum viable products by the end of 2026, before they become enduring pieces of digital infrastructure within the energy system. Changes will be required to at least one code, which code is the subject of a recent consultation, with a decision expected by spring 2025. CC timelines are intended to align with MHHS and SSES primarily and all will facilitate the RESP and Flexibility Market work.

Think & plan category

- **Data Sharing Infrastructure (DSI)**
  The government response to the energy system 'digital spine' feasibility study commits DSI technical solutions to be deployed as minimum viable products by the end of financial year 2025, before they become enduring pieces of digital infrastructure within the energy system. Ofgem has appointed NESO as the interim DSI coordinator.[29] DSI is planned to mostly be enabled through licence changes, but some code modifications may be required to ensure full uptake by non-network companies who use and share energy data. DSI is not expected to have significant code changes during its minimum viable product stage, though it may require some modifications once consumer data is introduced to the infrastructure, this is expected to be part of future iterations, with timelines yet to be determined.

Asset visibility

Think & plan category

Relevant codes

This content is relevant to the following codes:

Unknown

Policy context

Ofgem is supportive of improving visibility of small-scale assets (both Consumer Energy Resources (CER) installed at the household level, and Distributed Energy Resources (DER) installed on the distribution network) on the energy system. In our Flexibility Market Asset Registration (FMAR) consultation, we highlighted key problems with small-scale asset registration. Better visibility of small-scale assets for DNOs and NESO will support our energy networks to develop the infrastructure needed to deliver Clean Power by 2030.

Large numbers of small-scale assets will be installed to the energy system over the coming years, as part of decarbonising the energy system, heat and transport. Higher

[29] NESO to coordinate the delivery of energy data sharing infrastructure | Ofgem

registration rates of small-scale assets will improve DNOs' ability to manage, plan and reinforce the network at lowest cost.

Code changes

We do not currently anticipate that code modifications are required for this work and are instead planning to consult on options later this year, however, we will keep industry updated if code modifications are required in the future.

14.3: Establish a framework for responsible use of artificial intelligence in the energy sector

We do not think this objective currently has policy that is to be implemented through codes.

Adaptability for innovation

Think & plan category

Relevant codes

This content is relevant to the following codes:

ALL

Policy context

This objective contributes to the Fair prices, Quality and standards, Low-cost transition and Resilience pillars of Ofgem's Consumer Interest Framework.

Given the urgency of reaching the UK's net zero targets and the energy sector and consumers' role in doing so, it is more important than ever to enable swift development and implementation of innovation that supports net zero. In that context, rules governing the energy sector need to remain fit for purpose and in step with market developments to enable and respond to innovation.

Our ambition is to work with industry to define best practice when it comes to innovation in the energy sector. We think codes have an important role to play and have welcomed the introduction of derogation provisions, into some codes, that allow innovators to test new approaches. Where appropriate we have integrated some codes' provisions into our own Sandbox. However, reflecting on the past few years and listening to feedback from innovators, we recognise that the existing mechanisms were designed for a limited number of use cases and may not be sufficient to enable the adaptable regulatory system we're envisaging. It's important that all codes introduce mechanisms to facilitate

trials and timely market entry of innovations, including through derogations and trials of alternative rules.

Before updating code provisions, we want to work with industry to understand what is needed and identify how to best make changes that reflect our innovation sandbox and newly defined best practice around piloting innovation.

Code changes

To operate effectively, we suggest the features listed below for such adaptability mechanisms, though we're open to considering the details of these further based on ongoing engagement with stakeholders:

- Enable derogations (ie switching off rules so they no longer apply to someone or a specific activity). Derogations may be given on a trial, temporary or permanent basis, and any mechanism that enables derogations should have a robust process in place to understand wider potential consequences.
- Enable trials of alternative code rules.
- Enable swift changes to codes after successful trials.
- Facilitate individual as well as market-wide derogations or trials, i.e. not every party has to apply on an individual basis.
- Facilitate derogations and trials that are initiated by Ofgem (e.g. as part of a Future Regulatory Sandbox) rather than currently triggered by the application by an innovator.
- Enable coordinated cross-code adaptations for innovations that affect multiple codes.

Implementation of these functionalities may look different across the codes. We will work with industry to arrive at a shared vision for what code adaptability mechanisms should look like and determine when and how they should be introduced into different codes.

We would like codes to start thinking about how their current toolbox facilitates innovation, as well as how and when adaptability mechanisms could be introduced and what features they should have.

Appendix 1 – Glossary

Acronyms	Definition
ASTI	Accelerated Strategic Transmission Investment
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CACoP	Code Administration Code of Practice
CAP	Connections Action Plan
CC	Consumer Consent
CCS	Carbon Capture and Storage
CER	Consumer Energy Resources
CfD	Contract for Difference
CIF	Consumer Interest Framework, this framework identifies four pillars of consumer interest and is used to ensure that we are clear what our duty to protect consumers means in practice, and to help us identify trade-offs between different consumer interests.
CLF	Consumer-led Flexibility
CMA	Competition and Markets Authority
CoO	Change of Occupier
CoP	Code of Practice
CoT	Change of Tenancy
CP2030	Clean Power 2030, the government ambition and plan for Great Britain to be supplied with clean power by 2030.
CSDBs	Central System Delivery Bodies
CSNP	Centralised Strategic Network Plan
CUSC	Connection and Use of System Code
DBP	Data Best Practice
DCUSA	Distribution Connection and Use of System Agreement

DER	Distributed Energy Resources
DNO	Distribution Network Operator
DESNZ	Department for Energy Security and Net Zero
DSI	Data Sharing Infrastructure
DSR	Demand Side Response
DUoS	Distribution Use of System
ENA	Energy Networks Association
EV	Electric vehicle
Financial year	The financial, or fiscal, year running from 1st April every year to 31st March in the following year.
FMAR	Flexibility Market Asset Registration
FSO	Future System Operator. Named in the Energy Act 2023 as Independent System Operator and Planner (ISOP). In 2024 it was announced that the FSO would be named National Energy System Operator (NESO)
FWP	Forward Work Programme, Ofgem's annual work programme
GBE	Great British Energy
GEMA	Gas and Electricity Markets Authority
GDN	Gas Distribution Network
GHG	Greenhouse Gases
IGT UNC	Independent Gas Transporters Uniform Network Code
IUK	Innovate UK, the UK's Innovation agency
LDES	Long Duration Electricity Storage
MPAN	Meter Point Administration Number
MHHS	Market-wide Half-Hourly Settlement
MPW	Modification Process Workgroup

MPI	Multi-Purpose Interconnectors (MPI) are interconnectors with a connected offshore wind farm within GB waters
NESO	National Energy System Operator (the working name was previously Future System Operator (FSO))
NSI	Non-Standard Interconnectors (NSIs) are interconnectors with a connected offshore wind farm in the connecting country's waters only
NTS	National Transmission System
OHA	Offshore Hybrid Asset, a novel type of asset that combines traditional point-to-point interconnectors with the transmission of electricity from offshore wind generation into one asset
PSR	Priority Services Register
REC	Retail Energy Code
RECCo	Retail Energy Code Company, the code manager of the Retail Energy Code, responsible for maintaining and developing the Retail Energy Code
REMA	Review of Electricity Markets Arrangements
RESP	Regional Energy Strategic Plans
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
SCR	Significant Code Review, a way for Ofgem to influence the existing end-to-end code change process to modify industry codes
SDS	Strategic Direction Statement means a statement prepared and published by GEMA that sets out a strategic direction for energy industry codes and contains a strategic assessment of government policies and developments

	relating to the energy sector, that the GEMA considers will or may require the making of modifications to energy industry codes. In this document, references to 'SDS' shall be taken to mean either or both (as the context requires and having regard to the applicable SDS in force at the relevant point in time), (i) any preliminary Strategic Direction Statement prepared and published prior to a designation by the Secretary of State of a particular industry code pursuant to s.182 of the Energy Act 2023; and (ii) any Strategic Direction Statement prepared and published in accordance with s.190 of the Energy Act 2023, following a designation by the Secretary of State of a particular industry code pursuant to s.182 of the Energy Act 2023
SPS	Strategy and Policy Statement, a document designated by the Secretary of State under the Energy Act 2013 (after parliamentary approval), which sets out the strategic priorities and policy outcomes for the government's energy policy
SQSS	Security and Quality of Supply Standard
SSEP	Strategic Spatial Energy Plan
SSES	Smart Secure Electricity Systems
STC	System Operator- Transmission Owner Code
TNUoS	Transmission Network Use of System
TO	Transmission Owner
TPI	Third Party Intermediaries are organisations or individuals that give energy related advice, aimed at helping customers to buy energy and/or manage energy needs. TPIs include switching sites, energy brokers, energy consultants, and any company that offers support with energy procurement
UNC	Uniform Network Code