

Energy UK Response – Preliminary Strategic Direction Statement and Code Governance Arrangements

28 March 2025

Executive summary

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Energy UK welcomes the publication and the intent of this Strategic Direction Statement (SDS) and recognises the critical importance of strategically progressing energy code reforms to ensure this work does not impact wider workstream delivery. The proposals within this consultation, and the engagement and work delivered by Ofgem to date, are broadly welcome, with some concerns remaining.

- The proposed Standard Licence Condition (SLC) requiring parties to ‘cooperate’ with code changes remains concerning. Existing SLCs require suppliers to comply with code changes, implicitly ensuring that suppliers engage with codes given their importance to their business and operating models. There is no evidence provided in this consultation to demonstrate where supplier non-engagement has impacted customers or the industry and no detail on how the SLC would work in practice, with potential increases in administrative burden as suppliers are compelled to cooperate with a much wider range of changes.
- More detail is needed regarding: a) concrete proposals on prioritisation; b) the nature and timing of code reform processes; c) how reforms will be prioritised to best deliver on Ofgem’s statutory duties; d) resourcing of code bodies and Ofgem to ensure this work does not impact the delivery of other workstreams.

These areas should be worked through holistically and collaboratively with industry. Energy UK and its members welcome continued engagement on shaping and implementing this critical change process.

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Consultation Response

Section 2

Q1. Is the structuring of SDS content into three time horizons (Act now, Think & plan, Listen & wait) helpful?

While the idea of structuring strategic priorities into time horizons is helpful, these time horizons must align with timelines for many individual modifications, and the processes for setting timelines must be clarified. Some members also express concern that it is not yet certain the degree to which they will be expected to engage under the reformed code system compared to the existing one, compounding the uncertainty over timelines and administrative impacts.

Members frequently note concerns regarding a lack of resources and an emerging skills gap within both Ofgem and the code administrators. There is the potential for these challenges to lead to workstreams slipping through the cracks, being deprioritised or seeing timelines slip, with little visibility of how they are being adjusted.

Creating these time horizons is the right direction of travel from Ofgem, as is creating an obligation on code administrators, and later code managers (CMs), to adhere to the SDS' prioritisation. There must be an objective framework in place for identifying a policy area's appropriate categorisation, especially with respect to the 'Act Now' category. There is often a lack of policy certainty, so the case for using this time categorisation must be comprehensive. Credible measures to ensure timelines are transparent and generally met are needed, with a clear need for industry to be able to hold Ofgem and CMs to account for delivery. This means ensuring sufficient resourcing and expertise from relevant Ofgem staff and code administrators/CMs to reduce the number of send-backs and delays to modifications.

Ofgem must also ensure a sufficient level of cross-code coordination across the areas prioritised in the SDS. While there does exist a cross-code working group, members report that it only meets once per quarter, with the subject matter focussed on the Retail Energy Code (REC). Communication of the activities of the working group is not transparent. Ofgem should renew the terms of reference of the cross-code working group and improve its visibility and capabilities as an additional measure to support effective delivery.

Q2. Do you agree with the way modifications have been categorised into these three time horizons (Act now, Think & plan, Listen & wait)? If not, please specify what changes you suggest and why.

The categorisation of time periods (2 years, 2-3 years and 3-5 years) is broadly sensible but, to be meaningful, the periods for each of the three categories need to be backed by an obligation for code administrators (and later CMs) to deliver the SDS' priorities in the allotted time. It is concerning that the consultation proposes an obligation for code administrators/CMs to prioritise code modifications relevant to the SDS but no express obligation to deliver the modifications against the proposed timelines.

Q3. On the basis that the SDS should contain a strategic assessment of government policies and developments relating to the energy sector, that will or may require the making of code modifications, do you think there is anything missing from the SDS that you would expect to require code modifications in the next 1-5 years? If so, please specify.

The priorities outlined in this proposed SDS appear to broadly cover the necessary policy areas that require code modifications over the next 5 years. However, to be meaningful, it may be necessary to provide greater specificity to the areas of strategic priority in each category.

For example, modifications to bespoke charging arrangements for energy storage are a near-term priority as are changes to residual network charging for demand users and reforms to gas network charging. However, harmonising network charges to the chosen direction from the Government on zonal or national pricing (that is to say modifications that enable deeper transmission charges or more equalised charges) are a longer-term priority over the next 3-5 years. This level of specificity is needed within the proposed SDS. There is also an overarching need for clarity on how the prioritised areas fit into and facilitate the Government's goals, namely Clean Power by 2030 (CP30).

Energy UK also notes that modifications related to the Regional Energy System Plans (RESPs) should also be in the 'Act now' category given the powers and obligations set to be given to them over the next two years.

Q4. Did you find the SDS easy to understand and do you think that the level of detail included is sufficient to allow you to begin raising and implementing code changes?

Energy UK broadly agrees that the SDS is simple to understand, but further clarity in guidance surrounding how proposers can deliver accurate and appropriate information on the prioritisation level of the modification would be welcome. Ofgem should consider producing guidance to this effect.

Further, some members have noted that there appears to be some duplication with the actions outlined in the Ofgem multiyear strategy, raising questions about the added value provided by the SDS beyond what has already been published elsewhere.

Further detail on the SDS and the associated timelines and actions would be welcome.

Q5. If you are a code administrator or code panel what action do you intend to take, if any, to implement the SDS following publication?

N/A

Q6. Do you have any suggestions about the best way to implement the SDS in the context of budget setting, delivery planning and the introduction of a harmonised prioritisation process? Please note we will be doing stakeholder engagement in early 2025 to discuss this further.

Engagement should not be bookended to the approach, as continued and effective engagement is needed on the high-level strategic approach and the detailed implementation approach.

Resources must be protected in specific areas to ensure that critical code modifications, such as those relating to connections reform, REMA, Spatial Planning, and CP30, continue the delivery of those workstreams while the code reforms are implemented. Industry resource is tight, with a clear need for coordination with all actors across the sector to ensure effective engagement with a broad range of stakeholders without duplication, and with a clear shared purpose and direction across workstreams.

As mentioned in our response to question 1, members have suggested updating the terms of reference (ToR) of the cross-code working group to focus on coordinating wider areas that affect multiple codes, with the current iteration often focussed on REC issues. This should be accompanied by efforts to increase the transparency of the working group's activities and increase the frequency of their meetings above once per quarter.

Q7. Do you have any other feedback?

Energy UK would again note the need for prioritisation of the workstreams to ensure adequate resource to deliver this programme without impacting the deliverability of wider processes.

Clarity is required regarding the timelines for delivery across programmes and reforms to ensure that licence holders are not given duties without clear frameworks and guidelines to ensure equal interpretation across CMs and industry organisations. There is a wider need to ensure that prioritisation of modifications does not result in other modifications getting left behind given the sheer scale of critical code changes anticipated.

Energy UK would also ask that Ofgem engage earlier in code modification processes to ensure full understanding of proposals ahead of these being sent to Ofgem for approval. Alongside this it is critical that Ofgem and code administrators/CMs have sufficient resources and capabilities to quickly approve modifications and reduce delays.

Section 3 Prioritisation of code modifications

Q8. Do you agree with our proposed prioritisation process, including the requirements that:

- a) a proposer of a modification proposal should be required to include an assessment of their proposal against the prioritisation criteria**
- b) that the code panel should then be responsible for determining the prioritisation category of the modification proposal**
- c) that code panels should reassess the prioritisation category of modification proposals on a quarterly basis**
- d) that all codes contain a requirement for a code modification register, that also includes whether a modification is urgent and the prioritisation category**

If not, please specify what changes you suggest and why.

Energy UK broadly supports the proposed prioritisation process but cannot fully support the approach due to the lack of detail in the proposals. For example, the consultation does not clearly differentiate between the existing categorisation of 'urgency' and the newly proposed criterion of 'time sensitivity.' We would welcome Ofgem and code bodies working collaboratively with industry to establish a consistent and transparent code prioritisation approach.

The following additional considerations should be noted for each of the requirements.

- a)**
 - Additional guidance for code modification proposers on how to evidence the criteria set out would be welcome. The prioritisation process suggested should have a wider set of assessment criteria (progress against Net Zero; impact on

domestic and non-domestic consumers; ensuring security of supply; and ensuring safe and reliable operation of networks), and if Ofgem are minded to apply this process retrospectively to all modifications then this should be accompanied with a work plan given the significant resource impact it would have on industry.

- The approach should be transparent and consistent across codes.
- Detailed guidance on how a proposer and panel could speak to the additional criterion of 'alignment with the SDS' would be welcome.

b)

- It is right in principle that the panel, using assessments from the proposer and from the specific modification work group, decide on the level of priority given to each modification.
- Nevertheless, the approach should be consistent and should include clear metrics and justification explaining the level of priority given to each modification. These should be consulted upon with industry and code bodies should be made accountable to follow these guidelines in every instance to avoid subjective judgements.
- Ofgem must focus on setting out the defined responsibilities at each stage of code reform as it is difficult to fully comment on the SDS when there is uncertainty around Stakeholder Advisory Forums (SAFs), Code Managers, and code consolidation - many of these initiatives are hardly mentioned in the consultation despite being closely interlinked to the success of the SDS.
- Clear safeguards must be put in place to ensure modifications that are not prioritised can still progress in light of the scale of changes expected in coming years.

c)

- While a broad approach to reassessment on a quarterly basis is a welcome backstop, this should not prevent changes to specific modifications' assessments given the number of ongoing workstreams across the sector. A quarterly re-assessment may introduce unnecessary administrative burden without delivering proportional benefits, as market conditions are unlikely to shift significantly within such short timeframes. Ofgem should consider the administrative and cost implications of a quarterly reassessment and if an annual backstop would be sufficient, with the flexibility for ad-hoc reviews if material market changes arise that necessitate reprioritisation.
- While reassessment is welcome, to be meaningful, it must be combined with an obligation for the code administrators/CMs to produce timelines for modifications aligned with the SDS and to produce transparent updates to timelines as they change.

d)

- Energy UK agrees with the inclusion of this requirement for all codes.

Q9. Do you agree with our proposed prioritisation criteria and prioritisation categories? If not, please specify what changes you suggest and why.

While Energy UK broadly agrees with the principles behind the proposals, it is not possible to fully support these proposals in the absence of detailed guidance. Therefore, Ofgem and code bodies should work collaboratively to establish consistent prioritisation criteria. Detailed guidance on the interpretation would be needed to ensure a shared level of understanding across all parties.

In addition, a requirement that 'all assessments are published' should be included in the prioritisation process to ensure consistency and clarity as Codes Managers implement the approach.

Q10. Do you agree with our proposed legal drafting of code modification prioritisation procedure included in Annex A? If not, please specify what changes you suggest and why.

Energy UK broadly agrees with the proposed text.

Q11. Do you agree with our proposed definitions to form future guidance on Code Modification Prioritisation included in Annex B? If not, please specify what changes you suggest and why.

Energy UK is unable to agree with the proposed definitions at this stage.

While the proposed changes introduce a more structured approach to prioritisation, several concerns and potential improvements should be considered:

- Each industry code modification panel is responsible for determining prioritisation. However, variations in interpretation and a lack of clarity on, for example, how the prioritisation criteria will be weighted, could lead to inconsistencies, which should be addressed in the specific guidance to ensure consistent approaches across codes.
- The drafting does not specify how urgent code modifications would be approached compared to high priority but non-urgent modifications and the way these would be prioritised.

- There is no defined appeal process for prioritisation decisions - if a proposer disagrees with a panel's prioritisation assessment, there is no clear mechanism for challenging the decision. Ofgem could introduce an appeal mechanism, allowing proposers to request Ofgem's review in cases of dispute.
- There is a risk of delays in non-urgent low-priority modifications - Ofgem could introduce maximum processing times for lower-priority modifications to prevent indefinite delays and to re-assess whether some long-standing code modifications are warranted.

More detail would be welcome in the guidance that follows this consultation to ensure these issues are addressed and a consistent approach is delivered.

Detailing specific outcomes within the SDS for proposers and panels regarding how they can specify the ways that the modification would support delivery would be welcome.

Q12. Do you have views on whether this proposed prioritisation process should also apply to all live modifications that exist at the date that the proposed code changes take effect, as well as newly proposed modifications from this date onwards? Role of stakeholders

The proposed prioritisation process should apply to all live modifications to ensure equal treatment and a clear prioritisation of code modifications across all energy codes. Many of the changes critical to delivering existing workstreams and targets are in the code modification process already and should not be left behind in the process. A requirement that all CMs review the prioritisation of existing modifications would aid in ensuring the industry has clarity over resource prioritisation over the coming years.

Q13. Do you agree with our proposed drafting of a new principles-based standard condition, for cooperation with code modifications related to SDS, for all gas and electricity licences, included in Annex C?

Energy UK recognises the importance of ensuring there is a clear requirement that all licenced parties engage with relevant code changes.

There remain concerns about the creation of a specific SLC, as there is a lack of clear justification for the proposal, with existing licence conditions and industry standards meaning that licensed parties must engage with relevant code changes in order to ensure they can comply with codes as needed. Some licensees already engage with changes as part of standard business practice.

As outlined in Subsidiary Document 2: Preliminary Strategic Direction Statement, numerous codes align with the SDS, potentially requiring supplier cooperation. Engaging meaningfully with all of them would increase administrative burden therefore incurring higher costs, ultimately passed on to customers, due to companies being compelled to cooperate with changes that have a minimal or no impact on their business.

Conducting thorough impact assessments before presenting issues would ensure engagement with code modifications of genuine interest to licencees, without the need for a much broader increase in administrative burden.

Q14. Do you agree with the proposed criteria the code manager should consider prior to issuing a request for cooperation?

Energy UK does not agree that there is a clear justification for introducing a new SLC to force cooperation between licensees and CMs.

The guidance lacks clarity on the volume of requests being made. It is not specified how many requests for cooperation a CMs can issue and does not account for the possibility of multiple CMs issuing numerous requests to stakeholders at the same time and the impact this would have on administrative burden with limited benefits.

Before any request for cooperation is issued, enforced by an SLC or not, CMs should ensure thorough impact assessments that clearly articulate the rationale for changes, explore viable alternatives, and justify the continuation or removal of specific proposals. Historically, some CMs have not conducted such assessments, leading to low engagement.