

Consultation on the preliminary Strategic Direction Statement and code governance arrangements – response template

This document provides a template for responses to our consultation on the preliminary Strategic Direction Statement and code governance arrangements, published on 31 January 2025.

If you are interested in responding to this consultation, please complete this word document and send it to industrycodes@ofgem.gov.uk by the end of the day on Friday 28 March 2025.

Guidance

We typically publish consultation responses when we publish our decision. To ensure that we can correctly attribute your response, please ensure that you enter all relevant details in the “your company’s details” section (template part 1).

If you would like us to treat your response as being confidential, either in full or in part, please indicate this to us below. Further information on how we will treat your response, data and confidentiality can be found at the end of this document.

Please use template part 2 to provide your responses. For all questions, the template below provides space for you to enter free text comments. Some questions also ask whether you agree with our proposals. Please indicate the extent to which you agree or disagree with relevant proposals by deleting all but one of the bullets provided.

There is also a section for “general feedback” (template part 3). Please use this section to provide any views on the overall consultation process.

Template part 1: Your organisation’s details:

Contact name	Edward Allard
Role title	Industry Codes Manager
Company name	Cadent Gas Limited
Telephone number	07891670444
Email address	Edward.allard@cadentgas.com

Date of submission	28th March 2025
Do you want your response treated as confidential? (If yes, please indicate whether you would like the whole of your response to be confidential, or just particular parts).	

Template part 2: consultation responses

Consultation section 2 – Approach to the Strategic Direction Statement

Question 1 – Is the structuring of SDS content into three time horizons (Act now, Think & plan, Listen & wait) helpful?

- Agree

Comments: We support the inclusion of the proposed structure, as it allocates objectives into clearly defined categories, with each category providing industry with Ofgem's expected timeline for the delivery of code modifications. This will aid code managers to forecast their required levels of resource and produce more accurate ex-ante budgets, and help industry to plan for anticipated changes. The SDS should identify code changes that are required to give effect to government policies and developments relating to the energy sector. However, there are several examples of areas of change within the preliminary SDS that we do not consider to be primarily delivered through code modifications. For instance, under Objective 7, issues such as accelerated depreciation and network decommissioning are likely to be dealt with through price control arrangements between the gas transporters and Ofgem. From a code perspective, the UNC already contains the network charging arrangements that would be utilised to recover the costs of network decommissioning or accelerate depreciation – transporters would adjust unit rates within their transportation charging statements. Visibility of Ofgem's strategic view of Government's priorities is helpful, however, it is important that the SDS centres on changes deliverable through code modifications. Ultimately, code managers' performance will be assessed on their delivery of code modifications that give effect to SDS prioritises – the SDS should not incentivise code managers to address wider framework issues outside of their remit.

More broadly, the preliminary SDS contains 47 potential areas of change across 14 multi-year strategy objectives and 11 codes. The SDS identifies up to 15 potential areas of change in an individual code, with possibly a greater number of modifications required to deliver the intent of the objectives. Measures such as the introduction of standardised prioritisation criteria and multi-year timelines may help, but the time to develop, assess, and implement complex code changes should not be underestimated.

Question 2 – 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.

- Disagree

Comments: Our response to this question focuses on Objective 7 and our industry role as a gas distribution network. We disagree with the classification of the potential change areas “Recover the cost of the existing gas network” and “Prepare for repurposing and decommissioning of the gas grid” as ‘Act now’. Key policy decisions on the future role of gas and disconnections framework are still to be determined, meaning there is not sufficient detail for industry to develop code modifications – the required changes to give effect to the policy decisions (once determined) may also not create code impacts. Whilst we agree that the required level of clarity exists to be able to inform hydrogen blending code changes, we think it would be more appropriate to classify areas of change relating to gas network disconnections and decommissioning as ‘Think & plan’.

Question 3 – 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.

- Yes

Comments: Energy code reform stands to deliver whole system benefits and accelerate the development of all codes at the pace required to achieve net zero. Opportunities that are achievable within the SDS’s timeline exist across both gas and electricity codes. Whilst we recognise the importance of prioritising future gas network policy issues such as accelerated depreciation and decommissioning, we think more immediate opportunities have been omitted from the preliminary SDS. For example, industry-supported, current opportunities such as leakage reduction and maximising green gas entry are not recognised

within the preliminary SDS. Code changes may be required to implement the SIF-funded Digital Platform for Leakage Analytics (DPLA); and live modifications such as UNC 0887 and 0894 look to broaden choice for biomethane producers when connecting to the gas network and accessing entry capacity. Innovations to accelerate leakage reduction and improve green gas producers' access to the gas network have the broad support of industry, and inclusion within the SDS would send a positive signal to further reinforce this support. We think a potential change area titled "Maximising green gas entry onto the natural gas network" could be included within the 'Act now' category. Additionally, a potential change area under "Facilitate improvements to gas networks' shrinkage measurement and reporting" could be included within the 'Think & plan' category.

Question 4 – 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?

- Yes

Comments: The structure and the accompanying Strategic Direction Statement spreadsheet aids parties to interact and easily understand the preliminary SDS.

It will be important to strike the right balance on the level of detail within the SDS. For example, pitching the content at too high a level could result in ambiguous development of code modifications that do not deliver the intent of the SDS. Conversely, an overly prescriptive SDS could restrict code managers' ability to deliver optimal modifications using their industry expertise. Overall, we consider high-level drafting to be more appropriate on objectives that fall into the longer term categories such as 'Listen & wait'. It may also be more appropriate to take a higher-level approach in the preliminary SDS whilst some key policy decisions continue to emerge. We would expect future SDSs to contain more granular detail on the shape of required modifications once policy positions are confirmed and objectives change from 'Think & plan'/'Listen & wait' to 'Act now'.

Please see our comments in our answer to Question 1 regarding the volume of potential areas of change and the Ofgem and industry bandwidth it will take to deliver all objectives.

Question 5 - If you are a code administrator or code panel what action do you intend to take, if any, to implement the SDS following publication?

Comments: We support the positions held by Encodar in their response as the UNC code administrator – an obligation that they discharge on behalf of the gas transporters under Standard Special Condition A12.

Question 6 - 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.

- Yes

Comments: The consultation proposes to introduce standardised prioritisation criteria across all relevant codes, and processes that require proposers, panels, and code administrators to assess the priority classification at several points throughout a modifications lifecycle.

In some cases, these standardised prioritisation criteria and supporting process will be enacted into codes prior to the appointment of code managers. We think this sequencing of introducing standardised prioritisation criteria prior to code manager appointment raises two points: 1) 'Aligns with the SDS' has a weighting equal to the three other criteria, meaning that it will be possible for modifications that score well under 'Importance', 'Time-sensitivity' and 'Complexity' may be prioritised over changes that align with the SDS, and, 2) Code administrators are likely to incur additional costs in managing the ongoing review of modifications' priority classification. The gas transporters currently fund the operation of the Joint Office that administers the UNC. We believe any increase in cost incurred by the gas transporters should be reflected in the RIIO-3 price control settlement.

Question 7 - Do you have any other feedback?

Comments: No

Consultation section 3 – Code governance arrangements

Prioritisation of code modifications

Question 8 – 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.

- Agree

Comments: We agree with the proposed design of points (a), (b), and (d). We believe that a proposer should be required to provide a well-evidenced proposal that support their determination of their modification's chosen priority classification. Additionally, we think code panels are well placed in the interim to provide an objective view on their agreement/disagreement with a proposer's assessment of their modification's priority classification. A central modification register will support both proposers in understanding how similar modifications were previously classified, and panels in consistently applying principles when determining modifications priority classification. Under point (c), we think the benefits may not outweigh the time/resource when undertaking quarterly reassessments of modification proposals' priority classification. Instead, we think a 6-12 month frequency would be more appropriate, with code workgroups able to request ad hoc reassessments by panels in justifiable circumstances.

Question 9 – Do you agree with our proposed prioritisation criteria and prioritisation categories? If not, please specify what changes you suggest and why.

- Neither agree nor disagree

Comments: The proposal to introduce a sub-classification of non-urgent modifications into either 'Standard' or 'High-priority' alongside the existing 'Urgent' process should be workable for code parties, panels and administrators.

The introduction of defined, equally weighted prioritisation criteria will help proposers and panel determine consistent and objective priority classifications, noting that 'Aligns with SDS' would not necessarily take precedent over other criteria.

We think that further work may be required on the 'Complexity' prioritisation criteria prior to implementation. For instance, it is not clear from the consultation documents whether this criteria requires parties to determine complicated modifications more or less favourably. Modifications may be justifiably complex due to the scale of change that they're looking to deliver or the area of the code that they interact with. Furthermore,

complex modifications may be identified through the preliminary SDS and may be perceived to have high importance to the industry and consumers.

Question 10 – 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.

- Neither agree nor disagree

Comments: With regards to the proposed legal drafting for modifications to the UNC, our main comment is on the application of the new governance introduced by the changes, rather than the drafting itself. In some cases, Ofgem may utilise its transitional powers granted by the Energy Act 2023 to make modifications to codes prior to the appointment of code managers. This will result in existing code parties (proposers, panels, and administrators) being required to operate the new modification prioritisation governance prior to the activation of the licence condition outlined in Annex C. The proposed prioritisation criteria is only partially based on alignment with the SDS and it is feasible that proposals could be prioritised that are important, time-sensitive, and complex, but do not aid the delivery of the SDS. Ofgem's expectation is that industry will progress modifications that deliver the intent of the preliminary SDS, however, the proposed governance could favour non-relevant (but valuable) other modifications. This should be considered when Ofgem assess code panels/administrator's delivery of preliminary SDS modifications.

Question 11 – 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.

- Agree

Comments: Aside from our comments on the 'Complexity' prioritisation criteria under Question 9, we agree with the other proposed definitions within Annex B.

Question 12 – Do you have views on whether this proposed prioritisation process should 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?

Comments: In our view, the proposed prioritisation process should be applied to modifications proposed after the date of the code change taking effect. Retrospectively applying the prioritisation process could be challenging for code parties and administrators

to manage in terms of provision of legal text, modification consultations, workgroup planning, and consequential central system changes.

Role of stakeholders

Question 13 – 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?

- Agree

Comments: Overall we agree with the proposed drafting of the new principle-based standard licence condition.

Question 14 – Do you agree with the proposed criteria the code manager should consider prior to issuing a request for cooperation?

- Strongly agree

Comments: We echo other stakeholders' sentiment that the reformed framework should incentivise code managers to ensure their requests to code parties for assistance are reasonable. We support the introduction of measures that require the code manager to consistently and objectively assess the reasonableness of their potential requests, limit the obligation on code parties to share commercially sensitive information, and oblige the code manager to report on how they've utilised code parties' assistance to benefit the development of modifications. We agree with the proposed points that a code manager should be obliged to consider prior to issuing a request to a code party for cooperation.

Template part 3: General feedback:

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

Question	Response
Do you have any comments about the overall process of this consultation?	

Do you have any comments about its tone and content?	
Was it easy to read and understand? Or could it have been better written?	
Were its conclusions balanced?	
Did it make reasoned recommendations for improvement?	
Any further comments?	

Your response, data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We

won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.