

Consultation name: Consultation on the preliminary Strategic Direction Statement and Code Governance Arrangements

Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

Deadline for responding: 28th March 2025



SGN

St Lawrence House

Station Approach

Horley

RH6 9HJ

Gavin Baillie

Code Governance Reform

Ofgem

Via email to: industrycodes@ofgem.gov.uk

Dear Gavin,

Consultation on the preliminary Strategic Direction Statement and Code Governance Arrangements

Thank you for the opportunity to respond to the above Consultation¹. In this response we provide our comments on the relevant specific SDS areas in addition to detailed answers to the consultation questions posed.

As a Gas Transporter, SGN's interest in this consultation pertains to the impact of the Preliminary Strategic Direction Statement (SDS) relevant to the Uniform Network Code (UNC) and associated GT Licence obligations in relation to code administration² (currently delivered by the Joint Office of Gas Transporters) and the Central Data Services Provider (CDSP)³ (currently delivered by Xoserve). In addition to licence-driven administration obligations, UNC also discharges many of our functional licence conditions, and as a result we proactively engage with UNC workgroups and Modification Panel, on the latter of which we currently reside in one of five Gas Transporter representative roles. Both fora will be subject to change as a result of Code Reform, with the SDS driving amendments to the modification assessment criteria and wider Code Reform driving changes to the constitution and role of the Modification Panel. Code Reform will also result in the designation of the CDSP systems.

UNC is currently scheduled for Phase 2 of Code Reform, and while a firm timeline is not currently available, based on the expected implementation of Phase 1, we anticipate Phase 2 would fall beyond 2026 as a minimum. It is important to consider this phasing of implementation in the context of alignment, or otherwise, with the timescales articulated in "Act Now" and "Think and Plan", the former of which has a 1–2 year expectation. SGN is supportive of Code Reform and considers that a preliminary SDS is helpful as it represents a glide path on which industry can collaborate and coalesce. We will endeavour to support any activities which can be prioritised

¹ [Consultation on the preliminary Strategic Direction Statement and code governance arrangements](#)

² Standard Special Licence Condition A12

³ Standard Special Licence Condition A15

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and/or delivered in advance of Phase 2, however in the event that any conflict arises between Act Now activities and the prevailing regulatory framework, this may result in a limitation as to the actions which can be taken in advance of implementation.

SGN provides the following comments on the specific areas of the SDS discussed within the consultation:

Section 2: Shaping a retail market that works for consumers

Objective 3: Enable competition and investability through financial resilience (Think & Plan)

SGN agrees that financial resilience in the industry is in the interests of consumers, by mitigating the otherwise potential negative outcomes associated with a failure, in addition to the subsequent recovery of costs. We have engaged cooperatively with Ofgem throughout recent resilience developments, including Supplier of Last Resort arrangements and more recently the Debt Relief Support Scheme consultation. As discussed through this engagement, safeguarding the resilience of one area of the industry should not compromise the relative risk perceived in relation to another. Investability and cost recovery, particularly given the backdrop of the significant uncertainty regarding the future of gas, is paramount to gas networks and cost recovery. As discussed through the development of both schemes, depending on the detailed solution, industry parties' licence obligations and vires within this area could present conflict with the proposed code changes, and these should be considered/addressed as this strategy is progressed.

Section 3: Enabling infrastructure for net zero at pace

Objective 5.2 Establish and implement mechanisms to realise the Centralised Strategic Network Plan (Act Now)

SGN supports the objectives of NESO in relation to the CSNP and RESP.

Objective 5.3 Establish Regional Energy Strategic Planners (Think & Plan)

As above, SGN is supporting NESO in its obligations to establish the RESP, particularly through the development and facilitation of data requests from the CDSP.

Objective 7.1 Recover the cost of the existing gas network (Act Now)

It is critical that during the energy transition, all gas network costs are recovered in full. SGN is engaging with Ofgem in developing the most appropriate mechanism to safeguard this recovery. However as highlighted in SGN's response to Ofgem's recent *Call for Input – Exercising Consumer Choice: A review of the gas disconnections framework*⁴, unfeasibly high bill increases are required to recover costs over a shorter period from a reducing gas consumer base under the holistic pathway, whether depreciation of the RAV is accelerated or not. It is also important to note those customers left on the network are likely to be the most vulnerable, or those least able to adopt low carbon technologies.

Objective 7.2 Prepare for repurposing and decommissioning of the gas grid (Act Now)

SGN is actively engaging with the three workstreams articulated in the consultation. Furthermore, as indicated in our response to the recent *Call for Input – Exercising Consumer Choice: A review of the gas disconnections*

⁴ [Exercising consumer choice: a review of the gas disconnections framework | Ofgem](#)

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framework, we will continue to work with Ofgem to ensure the continued safety and security of the Gas Networks while developing a viable cost recovery mechanism, to recover all gas network costs, as we move towards Net Zero obligations.

As acknowledged in the consultation document, much of the need, or otherwise, of this objective is dependent on government decisions not yet taken, and furthermore we would expect these decisions to be informed by work currently underway, such as the Hydrogen Transport Business Model Market Frameworks Sub-Group (reporting to the Hydrogen Delivery Council) and the Hydrogen Blending Market Frameworks project and its associated 0849R UNC working groups. Given the dependency on these industry programmes of work, it would appear more appropriate for Objective 7.2 to fall into the Think and Plan category.

Objective 8.3 Develop new hydrogen transport business models (Listen & Wait)

As above, SGN is actively engaged in the Hydrogen Transport Business Model Market Frameworks Sub-Group. We expect the outcomes of this group to support and inform government policy decisions in this area.

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

Objective 11.2 Reform energy code governance to enable faster, more strategically aligned rule changes across the sector (Think & Plan)

As discussed, SGN is supportive of Code Reform, and is committed to positively furthering Ofgem's objectives in advance of Phase 2 implementation where possible, subject to limitations created by virtue of the prevailing regulatory arrangements. An example of pro-active, advanced, work in this area is the consolidation of IGT UNC and UNC, currently being assessed by the Joint Office of Gas Transporters for delivery potentially in advance of Phase 2.

Objective 13.2 Continue to drive the benefits of smart meters through regulatory oversight of rollout and data flows (Think & Plan)

The UNC and Transporters have limited obligations in relation to Smart Metering and therefore will support where appropriate.

Objective 14.1 Set governance and standards to digitise system data and improve data sharing (Act Now)

Where possible we will support the move to digitise Code data prior to Code Manager implementation.

Objective 14.2 Enable innovation across the sector (Act Now)

SGN is actively engaging in with Government, Ofgem and NESO on the Digital Spine and the move to digitising industry data.

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

We have responded to the recent Ofgem consultation on AI and are reviewing the Government published playbook which is in conjunction with developing a policy on usage across the energy sector and therefore will support in the establishment of an AI Framework for Code Managers.

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Adaptability for innovation (Think & Plan)

SGN are actively engaging with numerous innovation projects, through the Strategic Innovation Fund (SIF), National Innovation Allowance (NIA) and Net Zero and Re-opener Development (NZARD).

We look forward to engaging with Ofgem and wider industry parties to facilitate the outcomes required to move to the Net Zero trajectory set by Government.

Yours sincerely,

Hilary Chapman

Regulation Manager

SGN

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Response to Consultation Questions

Section 2: Shaping a retail market that works for consumers

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

Agree

Comments: This will provide a clear glide path of change required to code and industry parties to achieve the overarching SDS. However, as discussed above, any conflict between the time horizons and the phased implementation of Code Reform may inadvertently limit the actions which can be taken, as industry parties will be held to the prevailing regulatory arrangements.

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.

Neither agree nor disagree

Comments: Generally we agree, although as flagged above we consider that Objective 7.2 should be re-categorised into Think & Plan.

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.

No

Comments: Not at this stage.

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?

Yes

Comments: The preliminary SDS provides industry parties with a glide path on which we can coalesce. However there are significant elements which are subject to further consideration or government decisions, and as such while SGN is supportive of advanced work (such as consolidation of IGT UNC and UNC), it may be that the lack of current certainty, and/or the prevailing regulatory arrangements, limit the raising and implementation of a significant number of code changes.

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?

While SGN is not a code administrator, as a Gas Transporter we are obligated by licence to facilitate the creation and funding of the current Gas Code Administrator. As such we will seek to encourage that The Joint Office of Gas Transporters seek to implement where possible the SDS.

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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.

Don't know/no view

Comments: Our view will be informed by the planned stakeholder engagement.

Q7. Do you have any other feedback?

No

Comments: None at this time.

Consultation section 3 – Code governance arrangements

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.

Agree

Comments: We strongly agree with the principles set out in (a), and in principle the panel should do so based on the information available in the SDS against the prioritisation category. However in reference to (c) we would suggest a more frequent review of prioritisation once the Code Manager is in place to keep pace with any urgent modifications. Regarding (d) UNC currently has a modification register which includes an urgency identifier, to which a prioritisation category could be added.

Q9. 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

In principle we support the prioritisation criteria set out to facilitate delivery of the SDS. We would however indicate that some modifications may not meet any of these criteria. Modification which may be required to meet other industry initiatives underway or are facilitators to deliver better outcomes, including for consumers, should not be automatically dismissed or deprioritised.

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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.

Neither agree nor disagree

We support the proposed UNC legal text changes as they clearly set out the prioritisation procedure within the SDS and in Annex A. However these should not be in place prior to Code Manager appointment as a conflict in Code Governance could arise.

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.

Agree

As indicated in our response to Question 9, while we support the prioritisation criteria, existing industry projects and Modifications which provide improvements to the status quo should not be automatically deprioritised.

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?

Comments: It may be useful for the Code Manager to complete an assessment of any in-flight modifications as part of workgroup activities, however this should not deprioritise these changes unless they actively could prevent delivery of an SDS Change. In the event of a misalignment with the prioritisation criteria, further assessment of the needs case and details of the modification should be undertaken, and if the modification can still deliver value despite pre-dating the SDS then it should continue through development.

Any newly proposed modifications from this date should have the prioritisation process applied.

Role of stakeholders

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?

Neither agree nor disagree

SGN supports the principles set out in Annex C, subject to a legal review of the drafting as part of the Statutory Consultation process.

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

Agree

In principle we agree, however this would require review upon the publication of any licence drafting process.