

28 March 2025

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Dear Gavin,

**CONSULTATION RESPONSE TO OFGEM'S PRELIMINARY STRATEGIC DIRECTION STATEMENT AND CODE GOVERNANCE ARRANGEMENTS**

We welcome the opportunity to respond to the preliminary Strategic Direction Statement (SDS) and Code Governance Arrangements Consultation. We were grateful for the opportunity to participate in a recent Ofgem SDS workshop and our response reflects Ofgem's request for ideas on all aspects of the SDS and its implementation. We are responding as the Central Data Services Provider (CDSP) for the gas industry and our response considers the potential system changes which may be required to meet the SDS.

As the CDSP, Xoserve offers critical centralised services to Great Britain's gas market to make sure that it runs efficiently and reliably. We provide a single, consistent point of service for our customers and make sure their data is transported securely. Our remit includes:

- Supply point administration (SPA) of the central register, which holds details about all premises that have a gas supply.
- Maintenance of the central register and its related information flows through sophisticated computer networks and a suite of innovative data products, including the API provided for RECCo's Gas Enquiry Service.
- Processing of industry data through the main information exchange, for meter point administration, supporting customer switching, data services and settlement, which is critical for supporting the balance of the total system between supply and demand.
- Delivering invoicing, on behalf of National Gas Transmission and the Distribution Networks, to Shippers for the capacity, commodity and reconciliation of gas consumption across the network.
  - Xoserve have also provided this service on behalf of the wider industry. Between 2023 & 2024, we were called upon by DESNZ to be its agent and scheme administrator in delivering the Energy Price Guarantee (EPG) and Energy Bill Relief (EBRS) Schemes.
- Responsibility for industry performance data, market intelligence and reporting for regulatory compliance purposes.
- Provision of technical support and IT services for customers requiring assistance with their

data, industry processes or data flows.

We are committed to ensuring that the code changes identified in the Strategic Direction Statement (SDS) are effectively and efficiently applied. Our obligations are to fulfil the requirements of the current Uniform Network Code (UNC) and the Independent Gas Transporters UNC (IGT-UNC), before the transition to the Gas Network Code.

Over the last 18 months, our increased engagement with cross-code bodies has proven highly beneficial. We recognise the value of bilateral collaborations and developing strong working relationships across codes and Code Delivery Bodies (CDBs) to share insights for effective change implementation. Expanding the existing code coordination groups, Cross-Code Steering Group (CCSG) and Code Administration Code of Practice (CACoP) forum, further, to include Central System Delivery Bodies (CSDBs) will be critical to create more accountability for delivery where system changes are required. Both cross-code collaboration and the SDS should consider the prioritisation of large system upgrades and replacements to ensure that related modifications are appropriately prioritised and aligned with CSDB delivery horizons.

Within the SDS, we note that expected code changes for UNC and IGT-UNC related priorities are still largely unknown and dependent on policy decisions. Therefore, we do not expect many of these priorities to result in immediate system changes. However, as per Ofgem's request of Central System Delivery Bodies we have identified questions and areas for further exploration in the table below, which would enable us to determine the extent of change required to CDSP systems.

We support the overall content and structure of the SDS. Its clarity will enable the sector to pursue no-regrets planning and we are pleased to see that many of the priorities outlined align with our existing areas of focus. Alongside this, we endorse bringing the code manager appointment forward to materially improve the way major industry programmes are delivered and to accelerate the achievement of SDS objectives.

Please find below Xoserve's responses to the specific consultation questions. We hope you find our comments of interest and look forward to future engagement on this important initiative.

Kind regards,

A handwritten signature in black ink, appearing to read 'Clive Nicholas', written over a light blue circular stamp.

Clive Nicholas  
**Director of Strategy and Development**

# CSDBs – Table with Potential System Impacts

SDS Priority	Time Horizon	Comments on System Change Requirements
3: Enable competition and investability through financial resilience	Think & Plan	<p>We welcomed the changes introduced by the Supplier Licencing Review completed in 2020. This has helped contribute to a more stable market with no market failures since July 2022. As part of the revised process, Xserve contribute to the financial resilience checks by providing data and insights to Ofgem on applicants during the licensing application process. There are further areas which could be tightened, specifically where a Shipper/Supplier licence application is rejected due to the tighter licensing controls only for the applicant to then go on and purchase a licence from an existing licensee. We feel there could be additional measures that could be taken to prevent or manage this practice.</p> <p>We encourage Ofgem to discuss any proposed changes with us as we maintain the credit arrangements for the UNC in relation to Energy Balancing and have worked successfully with Ofgem throughout the previous energy crisis. Change to these credit cover arrangements would result in changes to the CDSP process and potential minor system changes.</p>
5.1: Strategic Spatial Energy Plan (SSEP)	Listen & Wait	We hold information on gas flows and usage throughout the network. Providing the established governance processes are followed this can be shared to help NESO produce the SSEP.
5.2: Establish and implement mechanisms to realise the Centralised Strategic Network Plan (CSNP)	Act Now	We hold information on gas flows and usage throughout the network. Providing the established governance processes are followed this can be shared to help NESO produce the CSNP.
5.3: Establish Regional Energy Strategic Planners	Think & Plan	We hold information on gas flows and usage throughout the network. Providing the established governance processes are followed this can be shared to help NESO produce the Regional Energy Strategic Plans.
7.1: Recover the cost of the existing gas network	Act Now	We understand that RIIO-3 is likely to increase regulatory depreciation charges to accelerate the speed at which gas network investment is paid back through gas bills. However, a full review of the mechanisms necessary to facilitate the recovery of costs for gas networks and other central bodies will require

		<p>government involvement and is likely to be lengthy and complex. We agree that this review should be started within the next two years so that this can be reflected as part of RIIO-GD4 and subsequent price controls as required. This will then provide the necessary clarity regarding what, if any, code and systems changes are needed to support this. Such a review should focus on all gas industry investments – not just network investment, but systems investments made by central bodies such as ourselves.</p> <p>Whilst we agree that this issue requires industry action sooner rather than later, such action requires policymakers, and specifically DESNZ, to provide greater clarity on the future of gas, the potential role of hydrogen, and the cost recovery mechanisms and timescales that are envisaged. Therefore, if retaining the ‘Act Now’ categorisation, the need for progress by key policy-making stakeholders should be emphasised. Otherwise, other industry stakeholders without decision-making powers can only ‘Think and Plan’.</p>
7.2: Prepare for repurposing and decommissioning of the gas grid	Act Now	<p>Many of the points that we have made in relation to objective 7.1 above, also apply here. Indeed, the two objectives themselves will interact and face similar issues. For example, the recovery of decommissioning and disconnection costs should be considered alongside the recovery of the costs of the existing gas network. Greater policy clarity will also be required, for example on the future of gas and the potential role of hydrogen, to understand the likely extent to which existing gas networks can be repurposed.</p> <p>As CDSP, we have already been working through the implications for our systems of the use of 100% hydrogen, different levels of hydrogen blending and un-propanated biomethane in the gas network. This work is ongoing but initial findings indicate that:</p> <ul style="list-style-type: none"> <li>• At &lt;5% hydrogen blending there is a minimal impact on CDSP systems and processes can work within the current flow weighted average calorific value calculations.</li> <li>• At 5%-20% hydrogen blending there is a medium impact to CDSP systems and processes. The Flow Weighted Average Calorific Value can still be used for calculations, however charging zones would be required for accurate tracking with multiple measurement points within each zone to check the gas energy content (CV).</li> </ul>
8.3: Develop new hydrogen transport business models	Listen & Wait	<p>We note that there is uncertainty in the hydrogen market and that a decision will need to be made on whether this requires a separate code. The merits of a separate code, distinct from the consolidated GNC, should be considered with a clear cost-benefit analysis.</p>

		If a separate code were to be created, we believe that a common code manager across the consolidated GNC and hydrogen would be in customers' interests to avoid duplication and ensure consistency and collaboration. We encourage government and Ofgem to provide policy direction in this area.
11.2: Reform energy code governance to enable faster, more strategically aligned rule changes across the sector	Act Now  Think & Plan  Listen & Wait	We welcome early delivery of Energy Code Reform to ensure improved programme governance for major system upgrades, without the need for a Significant Code Review.
13.2: Continue to drive the benefits of smart meters through regulatory oversight of roll-out and data flows	Think & Plan	There may be opportunity to include smart metering data into UNC systems in future. We shall be assessing the potential benefit for more frequent meter reads in the gas sector through UNC 0879R workgroup.
14.1: Set governance and standards to digitise system data and improve data sharing, and  14.2: Enable innovation across the sector	Act Now	It would be beneficial to have further clarity on the scope and objectives of both open data strategy and cross-code digitalisation for the gas sector, so that tactical steps can be taken.  Xserve plan to publish our data and digitisation strategy in autumn 2025, sharing the increasing access parties will have to our data supported by clear governance processes. We agree that the gas market needs to become more accessible, and we are working on embedding digitised documents within industry architecture.
Adaptability for innovation	Think & Plan	We support the ambition and welcome the evolving work on Sandbox initiatives. Xserve provide settlement expertise to innovation projects such as the Real Time Settlement Methodology and H100 projects which look to adapt the gas network for blended gases.  Embedding changes for a small trial can cause systems issues and complexities so we would encourage an early dialogue so that we can work together to ensure the best outcome for customers.

## **Part 1: Xoserve Ltd Contact Details**

Contact name	Clive Nicholas
Role title	Director of Strategy & Development
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Date of submission	27.03.2025
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).	No

## **Part 2: Xoserve Ltd Consultation Response**

### **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?

- Strongly agree

We agree that structuring the SDS into different time horizons is particularly helpful. We were pleased to see that the majority of IGT-UNC and UNC-related objectives have longer time horizons, as CSDBs require sufficient time to plan for change and ensure coordination and value for money. Therefore, we support the early appointment of a code manager to help the industry to deliver on the SDS objectives within the desired time horizons. In the meantime, we will be working with other central bodies to develop route maps and plans for the objectives identified.

**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.

We largely agree with how modifications have been categorised and are reassured that the majority of objectives which fall under the UNC and the IGT-UNC are not within the 'Act Now' category given the time it takes to properly plan for and deliver system changes.

However, we think it would be valuable to consider '*Objective 10.1: Pursue security of supply*' in tandem with '*Objective 7: Prepare for the future of natural gas*'. Currently these are categorised under different time horizons, but we think it would be prudent to develop a position on ensuring security of supply before decisions are made on decommissioning the gas network – rather than the other way around, which is how they are currently ordered in the SDS.

We also feel that whilst the topics discussed in Objective 7.1 and 7.2 (Prepare for the future of natural gas) are important and material, categorising these as 'Act Now' is premature, as in the absence of policy guidance it is difficult to know what immediate actions should be taken.

**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

Overall, the SDS is quite comprehensive. However, we believe biomethane would merit consideration by Ofgem in future iterations of the SDS, as a viable technology with potential for growth in the context of the future of natural gas. Additionally, we encourage Ofgem and the government to make decisions on hydrogen policy particularly on whether a new code is required, so that the sector can prepare and implement any necessary changes to CDSP systems.

**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?

- No

The SDS is easy to understand and provides clear information. However, it would be beneficial if it included more detailed code changes for the UNC or IGT-UNC, so that we can begin to take further action but we do acknowledge this is currently difficult as much is contingent on policy decisions from government.

**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?

N/A

**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

At Xoserve, our budget-setting process commences in the summer for the upcoming financial year, with the final business plan being signed off at the end of January. Therefore, it would be advantageous for the SDS to be released in spring, so that bilateral discussions with Ofgem and other stakeholders can take place over the summer, with the final statement being released in the autumn. This timeline would allow us, as CDSP, to include the necessary budget in the business plan to deliver any short-term modifications that need to be prioritised and make any required systems changes ahead of our semi-annual releases. Whilst we can sometimes expedite change post-business plan, we would require sufficient budget from stakeholders to do so.

**Question 7** - Do you have any other feedback?

We support cross-code collaboration and we are eager to work with Ofgem and other code parties to support the delivery of the SDS. We highly value early stakeholder engagement and inclusion in discussions at the CCSG.

### **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.

- Strongly agree

Xoserve firmly supports early implementation of code reform in the gas sector. As a result, we anticipate significant change – with code panels being replaced by stakeholder advisory fora and the code manager taking on greater responsibility in prioritising code modifications. This change is important for reducing the time from inception to implementation, which will be needed to support the transition to net zero.

**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

The proposed prioritisation criteria are suitable, although it is worth noting these are not quantifiable and therefore it could be helpful to include a cost-benefit analysis as part of a proposer's assessment – the responsibility for which could be transferred to the code manager after they have been appointed.

Prioritisation of change also needs to consider large system replacements, ensuring that modifications which facilitate these changes are appropriately prioritised. Furthermore, it is important to allocate sufficient time and priority to code freeze requirements, which may be necessary for the implementation of system changes.

**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.

- Agree

**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

We agree that the proposed definitions are reasonable, however it is important to recognise that modifications in the gas market typically require a significant amount of time. Furthermore, it will be important to ensure that modifications categorised as 'Standard priority' are not continuously superseded by those categorised as 'High priority' - a system will have to be put in place to ensure progress in code modifications is made at all priority levels.

**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?



We believe that the proposed prioritisation process should only apply to newly proposed modifications. Xoserve releases changes and improvement to its UK Link service three times a year aligned with the REC Release Schedule – in February, June and November. Change proposals and developments for such releases are already underway and so it would be best not to apply this new prioritisation process retrospectively.

### 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?

- Neither agree nor disagree

We support the introduction of mechanisms to ensure code parties cooperate and support the delivery of the SDS. We note however that the legal drafting does not currently include the reasonableness test and associated criteria, other than to say “where reasonably requested”. If not included in the drafting, Ofgem should make clear where these criteria will reside and their legal basis.

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

- Don't know/no view

The reasonableness criteria proposed seem appropriate. However, the ‘Impact on code parties’ criterion could perhaps explicitly acknowledge the need for specific consideration of the notice given for information requests, the timescales allowed for their completion, and the timing of such requests in relation to key business milestones or public holiday periods.

### Template part 3: General feedback:

Question	Response
Do you have any comments about the overall process of this consultation?	We support Ofgem’s approach to this consultation, which has been particularly engaging and well thought out. We would also like to express our thanks for the opportunity to participate in a consultation workshop and support future engagement activities such as this.
Do you have any comments about its tone and content?	The tone was appropriate and the content comprehensive. We would welcome further detail on objectives and code changes which focus on the gas industry, but appreciate this is difficult currently given much is contingent on policy decisions from government.
Was it easy to read and understand? Or could it have been better written?	The consultation and supporting documents were easy to read.
Were its conclusions balanced?	Overall, its conclusions were balanced, although some further thinking on the time horizon categorisation of gas related objectives would be beneficial.
Did it make reasoned recommendations for improvement?	Recommendations were well reasoned and any improvements in the absence of code manager which provides direction on the modifications which we can prioritise over others is helpful.
Any further comments?	