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and

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Email: industrycodes@ofgem.gov.uk

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Dear colleagues,

Cover letter for notices of consultation under section 8A of the Electricity Act 1989 and section 8 of the Gas Act 1986 to modify the code manager licences proposed to be granted to the RECCo in relation to the Retail Energy Code (“REC”), and, Elexon in relation to the Balancing and Settlement Code (“BSC”) .

We have today published a consultation:

- under section 8A and section 6 of the Electricity Act 1989, on the proposed modifications to certain standard conditions of the code manager licence (the ‘BSC Licence’) that may be granted to Elexon (the ‘Potential BSC Licensee’ in respect of the code manager role for the BSC).
- under section 8A and section 6 of the Electricity Act 1989, and section 8 and section 7AC of the Gas Act 1986, on the proposed modifications to certain standard conditions of the code manager licence (the ‘REC Licence’) that may be granted to the RECCo (the ‘Potential REC Licensee’ in respect of the code manager role for the REC).

We expect to publish a notice of licence grant for the BSC and REC Licences upon successful completion of the implementation and assurance process.

The Office of Gas and Electricity Markets

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The attached consultation notices are published on our website and set out details of the proposed modifications, including why they are proposed and their effect, the closing date of the consultation, and how to respond.

We are proposing to amend some of the standard conditions and introduce special conditions to each of the BSC and REC Licences that may be granted to the Potential BSC and REC Licensees. These proposed amendments and special conditions are set out in the notices published under section 8A of the Electricity Act 1989 and section 8 of the Gas Act 1986 (the “notices”).

In accordance with our statutory requirements and best practice, we have brought the proposed modifications to the attention of persons likely to be affected and provided copies of the notice to:

- the Secretary of State for the Department for Energy Security and Net Zero;
- the Scottish Government;
- the Welsh Assembly;
- the Health and Safety Executive;
- Citizens Advice;
- Citizens Advice Scotland;
- Consumer Scotland;
- Elexon;
- RECCo

Licence modifications

The modifications that we are proposing for each of the BSC and REC Licences are summarised below.

In our [phase 1 consultation on transitional measures and code changes](#), we consulted in detail on amendments to the code manager standard licence conditions (SLCs) 20, 21, 23, 25, 26 and 29, and set out our decision to introduce these amendments in our [phase 1 consultation decision](#). Accordingly, this letter provides only a high level overview of these changes, with further detail on their rationale and effect set out in the accompanying notices and our phase 1 consultation and decision on transitional measures and code changes.

Previous consultations also set out our policy intention that the responsibilities under the existing code owner arrangements would transfer to the code manager. We have, therefore, also included the detailed drafting proposal to give effect to those arrangements.

Amended SLC 1 (Definitions), SLC 2 (Rules of interpretation for this Licence), SLC 18 (Restriction on the Licensee becoming a Related Undertaking), SLC 27 (Code maintenance and modification)

The SLCs include square-bracketed placeholders where licence-specific details are required to ensure that the conditions operate correctly. We propose to make minor amendments where there are square-bracketed placeholders in SLCs 1, 2, 18 and 27 to include cross-references to another part of the licence.

Amended SLC 20 (Annual Budget of the Licensee), SLC 21 (Appeals to the Authority on the Annual Budget of the Licensee), SLC 23 (Code Manager Cost Recovery Statement, SLC 29 (Production and execution of a Delivery Plan with the Strategic Direction)

We expect to grant the BSC licence in February 2027 and the REC licence in December 2026. In our [phase 1 consultation decision](#), we recognised that some of the code manager SLCs might need amendments to address transitional issues, in part due to the anticipated timing of their appointment. We also identified a potential period between licence commencement and the point at which certain requirements in the SLCs come into effect, meaning those requirements are not yet in force during that period. To address these, we decided to introduce a number of amendments to SLC 20, 21, 23 and 29 of the BSC and REC licences to support the effective implementation of the new governance framework for phase 1. The reasons and intended effects of these amendments are outlined in the attached consultation notices.

Amended SLC 25 (Performance incentives), SLC 26 (Remuneration policy)

In our [phase 1 consultation decision](#), we acknowledged that further adjustments to the code manager performance framework are likely to be required following licence commencement, as the new model beds in and insights are gained. To accommodate this, we decided to introduce a number of amendments to SLCs 25 and 26. The rationale for, and intended effects of, these amendments are set out in the attached consultation notices.

BSC and REC specific code owner conditions

Condition E1 of the electricity system operator (ESO) licence includes obligations on the licensee to have the BSC in place. Condition 11B of the electricity supply licence, and condition 11 of the gas supply licence include obligations on the licensee to have the REC in place. These conditions typically define the scope of the code, specify required code content, and set out arrangements for code maintenance and modification. We refer to these provisions as the “code owner conditions”.

SLC 27 of the code manager licence establishes the obligation on the code manager to maintain the relevant code and sets out core requirements for the code modification process. As responsibility for code governance transfers to the code manager under

SLC 27, the existing code owner provisions in current licence types will need to be amended or removed, with certain bespoke requirements that are not reflected in SLC 27, such as the code objectives for each respective code, introduced into the code manager licence using a special condition.

This consultation does not propose any amendments to the code objectives for the BSC or REC. The objectives are being carried across into the relevant code manager licence as part of the transfer of existing code governance responsibilities.

Condition E1 of the ESO licence also sets out core elements that must be included in the BSC. As the code manager will be responsible for overseeing BSC governance under future code governance arrangements, we consider that these should be included in a special licence condition for the code manager.

The BSC includes a framework agreement, which parties must sign to become a party to the code. The existing code owner condition sets out what the framework agreement must contain. We propose that these requirements are instead set out in the bespoke licence condition for the code manager. We consider this would reflect the code manager's responsibility for administering and maintaining the BSC's governance arrangements.

We expect to consult separately on the consequential licence changes required to give effect to the removal of the existing code maintenance obligations for the phase 1 codes using our schedule 12 powers under the Energy Act 2023. These will be removed from condition 11B of the electricity supply licence, condition 11 of the gas supply licence and condition E1 of the ESO licence.

If you have any queries regarding the information contained within this letter you should contact industrycodes@ofgem.gov.uk.

Yours sincerely,

Carmel Golden

Deputy Director, Market Oversight and Enforcement