

Decision

Decision: The draft second preliminary Strategic Direction Statement

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On 2 April 2026, we published our consultation on the draft second preliminary Strategic Direction Statement. This document details our decisions on the questions raised in the consultation, with the final second preliminary Strategic Direction Statement published as an ancillary document.

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Executive summary

This document sets out our¹ decisions following consultation on the draft second preliminary Strategic Direction Statement (SDS-2). SDS-2 will be preliminary until the designation of certain industry codes by the end of 2026.² The Strategic Direction Statement (SDS) continues to be ambitious in its scope, addressing all industry codes within the remit of code governance reform and looking up to five years ahead, while maintaining a particular focus on priorities for the next one to two years. The SDS, a key component of Energy Code Reform, contains a strategic assessment of government policy and developments related to the energy sector that will or may require changes to the industry codes.

In April, we consulted on the proposed content of SDS-2, including our categorisation of policy areas and whether any key areas which may or will require code changes are missing from our assessment. We also sought views on our proposed approach for converting SDS-2 from a preliminary to hybrid document, once the designation of the Balancing and Settlement Code (BSC) and the Retail Energy Code (REC) occur.

Respondents to the consultation broadly supported the content and categorisation of SDS-2. For most policies areas captured by SDS-2, we continue to believe the time horizon categorisations and the codes expected to be affected are appropriate. However, most sections have been updated to some degree since the draft version, alongside the addition of new policy areas. These changes reflect both consultation feedback and more recent developments. This decision document focuses on the principal changes and explains the rationale for our decisions in response to the consultation questions.

Table 1, below, summarises the material changes from the draft we consulted on in April. This includes policy areas where we have made changes to the time horizons³ we expect changes to be implemented (or progressed) within, and where we have added new policy areas.

Table 1. Summary of material changes made to the draft second preliminary SDS.

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority (GEMA). The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

² Designated documents refers to the industry codes that will be designated by the Secretary of State (per section 182 of the Energy Act 2023) prior to code manager appointment. The first code manager is expected to be appointed by end of 2026. This designation is distinct from the designation of ‘qualifying documents’ (per paragraph 1 of Schedule 12 to the Energy Act 2023) which is a transitional designation to allow use of Ofgem’s transitional powers on codes that have been designated as qualifying documents. We expect designation of industry codes to happen in parts, where we refer to “designation of industry codes” throughout this document, this refers to designation of any particular code or codes as the case may be.

³ Please see the ‘Prioritisation and colour coding’ section of Subsidiary Document 1 for a full description of the three time horizon categories used in SDS-2.

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Policy area ⁴	Material change	High-level rationale
2.1 Improve protections for all consumers, particularly the vulnerable	Act now in addition to Think & plan	Work with industry to identify code modifications required for the Consumer Confidence programme is due to begin in Q1 2027. Any modifications required to implement Priority Services Register data sharing should be progressed as soon as possible.
6.1 Accelerate the delivery of onshore network projects	New policy area included in Act now	The programme has gathered momentum with industry stakeholders contributing to the first Strategic Network Access Plan and an escalation framework. The programme has identified the need for several code decisions which will likely require implementation within 2026 - 27.
6.1 Future developments for Competitively Appointed Transmission Owners (CATO)	Moved from Listen & wait to Think & plan	Upcoming policy decisions over the next year have been identified as possibly impacting the new CATO framework. Therefore, industry should be prepared to assess and progress any consequential code changes required in the 'Think and plan' timeframe.
6.2 Anticipatory Investment	New policy area in Act now and Think & plan	Industry has identified opportunities for shared infrastructure that are not fully accommodated under the current framework. There is a need for future code modifications to ensure the regulatory framework can support these emerging delivery models.
8.4 Support the development of long-duration electricity storage (LDES)	Moved from Act now to Think & plan	Ofgem has decided that LDES floor payments will be recovered through Balancing Services Use of System (BSUoS) charges and, while this was initially expected to require industry code changes, we now consider the necessary arrangements can instead be implemented through amendments to the NESO licence.
10.1 Frequency Risk and Control (FRCR)	Moved from Think & plan to Act now	We are now expecting an update to the FRCR methodology in 2027, which will likely require code modifications within the 'Act now' time horizon.
10.1 Ramping Arrangements	Moved from Think & plan to Act now	Operational concerns are growing rapidly with the advent of large-scale battery connections. The need for a solution to be developed quickly has increased. We expect work and resource will be required in the 'Act now' timeframe to develop an engaged solution with stakeholders.

⁴ Including the relevant Multiyear Strategy objective number, see the second preliminary Strategic Direction Statement for further details.

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Policy area ⁴	Material change	High-level rationale
11.2 Energy Code Reform	New sub-section in Act now in addition to Think & plan and Listen & wait	New subsection to encourage simplification and ‘ease of use’ of the codes through a list of suggested actions for code managers.
12.1 Reformed National Pricing (RNP) - Balancing and Settlement Reforms	Think & plan in addition to Act now	Further detail on timelines and workstreams has emerged, identifying a longer term phased nature of RNP work that will fall into the ‘Think & plan’ timeframe.
12.1 RNP - Siting and Investment Lever Reforms	Think & plan in addition to Act now	Work on both transitional and legacy arrangements may require code modifications as part of RNP with timelines expected within the ‘Act now’ timeframe. As further work and government decisions are needed to settle the design of this programme of changes and how they will be implemented, this is reflected within a ‘Think and plan’ timeline.
13.1 Increasing market access for consumer-led flexibility	Act now in addition to Think & plan	‘Act now’ added to reflect current work on BSC modifications P502, P509 and P510, to ensure that work on these upcoming compensation code modifications is prioritised.
13.2 Smart metering and retail market operations	Think & plan in addition to Act now	We have decided that ‘Act now’ remains appropriate for the majority of this policy. However, any modifications required to transition in due course to enduring governance are expected to occur later, in the ‘Think and plan’ timeframe.
13.3 Market-wide Half-hourly Settlement (MHHS)	Think & plan in addition to Act now	‘Act now’ remains appropriate for the majority of this policy. However, development work on the Data Integration Platform and Data Transfer Network should take place as soon as possible <u>after</u> completion of MHHS.
Implications of possible participation in the EU Internal Electricity Market (IEM)	New policy area in Act now and Think & plan	As of December 2025, the Government has agreed to work towards the participation of the United Kingdom in the European Union’s Internal Electricity Market (IEM) by way of an EU-UK Electricity Agreement. Discussions with the European Union are ongoing. Participation in the IEM could have significant implications for many of the industry codes.

In addition to these changes, following consultation, we have decided to proceed with our proposed approach to convert SDS-2 into a hybrid SDS following designation of the REC and BSC. This means that we anticipate publishing conversion letters at the point of designation. This approach provides certainty for stakeholders while supporting

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implementation of the new governance framework at pace. We have also strengthened SDS-2 to provide additional clarity on Ofgem's role and the importance of cross-code collaboration during the transition period.

1. Introduction

This section describes the context and aims of energy code reform, the Strategic Direction Statement and related publications. In addition, it sets out our decision-making process and next steps following this publication.

Energy code reform

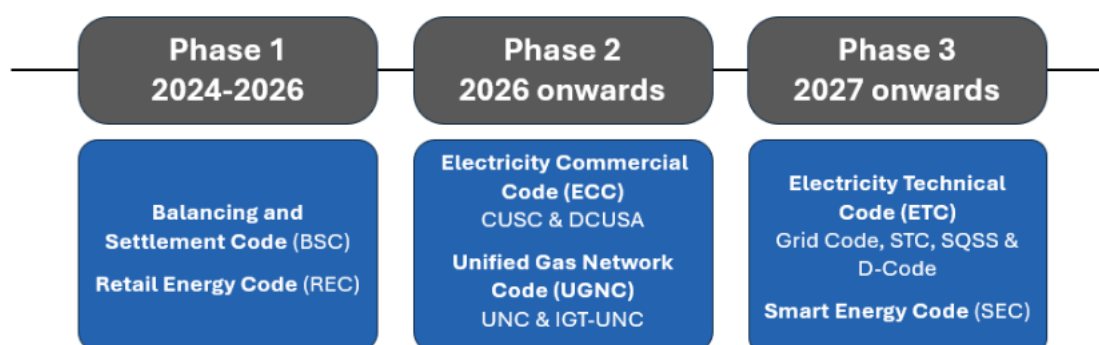
- 1.1 Energy code reform is modernising Great Britain’s energy regulation by replacing complex, outdated governance with a simpler, more agile and forward-looking framework. Many of the rules that govern the operation of the energy system sit within industry codes. These codes set the rules for a wide range of commercial and technical activities from how parties connect to the electricity and gas networks, to how consumers switch suppliers, to who can access consumption data.
- 1.2 These rules need to keep pace with the transformation happening within our energy system. But taken together, they form a complex and fragmented landscape that can slow innovation, limit competition and hold back investment. Many of the policy and market improvements designed to deliver consumer benefits depend on changes to the codes, but progress can be delayed by friction and competing interests within the current governance arrangements.
- 1.3 Energy code reform is a joint programme between Ofgem and government to address these issues and turn energy codes into an effective engine for wider system change. It replaces the current industry governance process for updating the codes with a new framework, as enabled by the Energy Act 2023.
- 1.4 Code reform is a critical part of [Ofgem's Multiyear Strategy](#) published in 2024 and supports Ofgem’s [Market Strategy and Vision](#), as part of the low-cost transition. By empowering independent code managers, strengthening strategic direction and improving the change process, system change can be delivered quickly and with greater confidence. It is also designed to improve code-users’ experience by reducing the number of processes industry must navigate and cut down on friction, complexity and wasted effort. Consolidation and simplification of the codes will make it easier for market participants to understand the rules that apply to them, reduce compliance burden and remove barriers to entry and innovation.
- 1.5 The reforms introduce several key improvements to the current framework, including Ofgem licensing new code managers who will be responsible for leading code modifications and decision-making and ensuring that the codes develop in line with Ofgem’s annual strategic direction statement. Industry expertise will remain at the heart of the framework, shaping and developing robust code change proposals and playing a vital role in the process through new stakeholder advisory forums.

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1.6 To deliver the reform, Ofgem and government have been progressing several key activities including:

- Ofgem publishing annual strategic direction statements, setting out a clear and ambitious direction for how industry codes must evolve to deliver strategic priorities that support consumer outcomes and the transition to net zero. This document is our decision following consultation on the SDS-2.
- Ofgem selecting code managers for each code – Ofgem issued a minded-to-grant notice for phase 1 code managers ([Elexon](#) and [RECCo](#)) in August 2025. We also published an invitation [for expressions of interest for phase 2 code managers](#) in January 2026. Following this, we recently published our decision to consider the Retail Energy Code Company for non-competitive selection as the code manager for the electricity commercial code. We have also decided to consider Xoserve, in partnership with Encodar (as the Joint Office of Gas Transporters) and Talan, for non-competitive selection as the code manager for the gas network code. Both candidates have been invited to submit licensing assessment forms.
- Government, working with Ofgem, published the final code manager standard licence conditions in March 2026. The [Secretary of State determined these](#) for the purposes of Sections 33(1) and 81(2) of the Utilities Act 2000 in May 2026. Ofgem is developing and consulting on proposed licence and code modifications that aim to bring the new framework into effect. We published the [second implementation decision and consultation on the proposed code text](#) on 6 March 2026 which will help to deliver this new governance framework. We published the [phase 1 decision covering transitional measures and consequential changes](#) in September 2026.

1.7 Given the scale of the reforms, we will be delivering the new governance framework in three phases. Phase 1, covering the BSC and REC, is planned to go live from November 2026. The first phase 1 code manager will be appointed for the REC by end of 2026, with the second code manager to be appointed for the BSC in early 2027.



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Figure 1: Overview of Energy Code Reform implementation phases

Phase one is between 2024 to 2026. The code modifications that are implemented in this phase are:

- Balancing and settlement code (BSC)
 1. Retail Energy Code (REC)

Phase two is 2026 onwards. These code modifications that are implemented in this phase are:

2. Electricity Commercial Code (ECC), which includes CUSC and DCUSA
3. Unified Gas Network Code (UGNC), which includes UNC and IGT-UNC

Phase three is 2027 onwards. The code modifications that are implemented in this phase are:

4. Electricity Technical Code (ETC), which includes Grid Code, STC, SQSS and D-Code
5. Smart Energy Code (SEC)

The Strategic Direction Statement

- 1.8 The [Energy Act 2023](#) (the ‘Act’) gave new powers and responsibilities to Ofgem, enabling us to implement significant reform to the governance of the industry codes. These reforms include establishing a duty for Ofgem to publish an annual Strategic Direction Statement (SDS) for designated documents.
- 1.9 The SDS contains a strategic assessment of government policy and developments related to the energy sector that will or may require changes to the industry codes. It brings this together in a single document for industry stakeholders to act on, to implement policy change and realise policy benefits. In future, code managers will be responsible for managing the code change process and ensuring codes develop in line with the SDS.
- 1.10 In our [January 2024 Implementation Consultation](#) we published our proposed approach to implement energy code reform. This included, among other things, our proposals for developing and delivering an SDS, including the proposed role of code managers and industry participants in this process. In our subsequent [August Implementation Decision](#), our policy decisions included a decision to proceed with publishing a first preliminary SDS (SDS-1) in 2025.
- 1.11 We considered that publishing a preliminary SDS before codes had been designated and code managers appointed would help prepare prospective code managers for their role and facilitate the transition to the new governance framework. In producing SDS-1, we consulted on the content, structure and implementation of the SDS more generally to help inform the preparation of future SDS documents.

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- 1.12 As above, we refer to the first preliminary SDS, published in August 2025, as ‘SDS-1’. We refer to the second preliminary SDS and (where the context requires) any aspect of it that is converted to a formal SDS⁵ as ‘SDS-2’. More broadly, the term ‘SDS’ may be used to refer to any iteration, or the document generally, as determined by the context.
- 1.13 In this document, we describe our decisions on the content of SDS-2, including our categorisation of policy areas and whether any key areas which may or will require code changes are missing from our assessment. We also set out our decision on the proposed approach for converting the SDS-2 from a preliminary to hybrid document, once the expected designation of the BSC and the REC occurs.
- 1.14 Alongside this decision, we have published updated versions of the following documents:
- Second Preliminary Strategic Direction Statement for industry codes
 - Second Preliminary Strategic Direction Statement spreadsheet

Context and related publications

- 1.15 The [Government’s Review of Ofgem](#) (the ‘Ofgem Review’) was published in April 2026. The review focussed on:
- Ofgem’s mandate
 - The powers Ofgem has to protect consumers Ofgem’s scope and remit
 - The standards Ofgem sets and how redress is made when standards are not met
- 1.16 The Review sets a clear direction to strengthen energy regulation and makes clear that the energy regulator must evolve at the same pace as the energy system it regulates. We are committed to working with government to make the necessary changes to strengthen our role as a regulator. Alongside this, we are embedding a new way of operating through PACT - Predictable, Agile, Collaborative and Technology-enabled. PACT will guide how we make decisions, how we regulate and how we work with stakeholders, supporting a more strategic, transparent and outcomes-focused approach to regulation. It applies both to how we work internally and to how consumers, industry and government experience Ofgem.
- 1.17 Some changes, such as amendments to our duties, will require the government to introduce legislation. Therefore, the outcomes of the Ofgem review have a limited impact on this SDS, however future iterations will reflect the changes Ofgem is making in response to the Ofgem Review.

⁵ As per our proposals set out in paragraphs 2.5 – 2.9 of the [Consultation on the draft second preliminary Strategic Direction Statement for industry codes](#).

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1.18 Additional, recent documents related to this publication include:

- [Decision on Phase 1 consultation on traditional measures and consequential changes](#) (September 2026)
- [Implementation of energy code reform: template code text decision](#) (August 2026)
- [Energy code manager standard licence conditions: determination notice](#) (May 2026)
- [Establishing a harmonised prioritisation process in the Industry Codes: decision](#) (April 2026)
- [Energy code reform phase 1: transitional measures and code changes](#) (April 2026)
- [Energy code reform: competitive code manager selection](#) (December 2025)
- [Establishing a harmonised prioritisation process in the industry codes: statutory consultation](#) (November 2025)
- [Decision on the preliminary Strategic Direction Statement and governance arrangements for industry codes](#) (August 2025)
- [Energy Act 2023](#) (October 2023)

1.19 We continue to work jointly with government on the regulatory framework for energy code reform. We published a [joint consultation with government in Spring 2025](#) on code manager licence conditions and updates to secondary legislation for code modification appeals to the Competition and Markets Authority (CMA). A [decision](#) was published on 23 March 2026.

Decision-making stages

Stage 1 [Consultation](#) open: 2 April 2026

Stage 2 Deadline for responses: 28 May 2026

Stage 3 Responses reviewed and published: 15 September 2026

Stage 4 Consultation outcome: Decision and publication of the final second preliminary Strategic Direction Statement: 15 September 2026

We received 23 responses from a range of stakeholders in response to our consultation. We also engaged with stakeholders during the consultation, hosted two workshops in May 2026 and engaged with interested parties via bilateral meetings.

We carefully considered all responses raised by stakeholders, even where they are not specifically mentioned in this decision document. We have published all non-confidential responses on our website.

In this document, we refer to various decisions that we have taken on the second preliminary Strategic Direction Statement and our conclusions on our next steps in relation to the proposed approach to conversion.

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Next steps

Over the coming months, Ofgem will take forward a series of activities to finalise and implement the new governance framework for the phase 1 codes. For further details on our anticipated next steps, please see the 'Next Steps' section of the recently published [Implementation of energy code reform: template code text decision](#).

2. Second Preliminary Strategic Direction Statement

In this section we set out a summary of stakeholder responses and our subsequent decisions in relation to the questions we posed in the consultation on the SDS-2. This decision should be read in conjunction with Ancillary Document 1: Second Preliminary Strategic Direction Statement for industry codes.

Questions

- Q1. 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.
- Q2. Do you agree with the classification of each policy area within the three time horizons (Act now, Think & plan, Listen & wait)? If not, please specify what changes you suggest and why.
- Q3. Do 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 modifications, where appropriate?
- Q4. Do you support our proposed approach to convert the SDS from a preliminary document to a hybrid document, following designation of the BSC and the REC?
- Q5. Do you have any other feedback?

Consultation position

Overview of content updates

- 2.1 The consultation presented a draft SDS-2 which set out a strategic assessment of government policy and developments related to the energy sector that will or may require changes to the industry codes. This draft SDS-2 reflected developments in a range of policy areas since publication of SDS-1. Our consultation summarised the key changes, including new and removed policy areas.

Our approach to converting the second preliminary SDS from preliminary to a hybrid document

- 2.2 The consultation proposed that SDS-2 would be published as the second preliminary SDS in September 2026, prior to designation of the BSC and the REC. We proposed that, following designation of the BSC and the REC, Ofgem would publish a conversion letter setting out:

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- the extent to which our conclusions contained in the SDS-2 remain unchanged for the BSC and the REC and where applicable, explains any updates that may be included
 - that the SDS-2 is to be treated as formal in the context of section 190 of the Energy Act in so far as it applies to the BSC and the REC
 - that the SDS-2 is the document that the code manager (and other affected energy licensees and code parties) should refer to when fulfilling any obligations that relate to the SDS (in so far as they relate to the BSC and the REC)
- 2.3 As a result, SDS-2 would become a hybrid document⁶, operating as the formal⁷ SDS for designated codes while remaining a preliminary⁸ SDS for codes that had not yet been designated.
- 2.4 The consultation set out that, as SDS-2 had been developed using a process aligned with section 190 of the Energy Act 2023, we did not intend to re-consult on the document following designation of the BSC and REC. Stakeholders were therefore encouraged to provide any relevant representations through the SDS-2 consultation process.
- 2.5 We noted that this approach would provide prospective code managers with sufficient certainty to develop delivery plans and budgets for 2027 - 28, while allowing adequate opportunity to review and comment on the SDS-2 before publication.
- 2.6 We also indicated that a similar approach may be adopted for future SDS iterations where the timing of code designations and annual planning cycles made further consultation impractical, although the approach would remain under review and be considered as part of each annual SDS process.
- 2.7 Overall, our approach aimed to build on SDS-1 by refining its content, improving its usefulness as a strategic planning tool and supporting preparations for code modifications and transition to the future code governance framework. We welcomed feedback from stakeholders to help ensure the SDS remains accurate, practical and aligned with relevant government and sector priorities. The remainder of this section assesses the consultation questions in order.

⁶ A 'hybrid' SDS will address both designated and not-yet-designated codes, until all codes have been designated. At the point of first designation, we will enter a phase of hybrid governance, during which some codes will have transitioned to the new governance framework with an appointed code manager and legal obligations to deliver the SDS, and other codes will still be operating under the legacy framework with code administrators.

⁷ A 'formal' SDS is one that addresses industry codes that have been designated by the Secretary of State pursuant to section 182 of the Energy Act 2023.

⁸ A 'preliminary' SDS is one that addresses industry codes that have not yet been designated by the Secretary of State pursuant to section 182 of the Energy Act 2023.

Question 1. 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.

Summary of consultation responses

- 2.8 The majority of respondents stated that they believed there was something missing in the draft SDS-2. Of those that responded ‘yes’, several did not highlight specific missing policy areas but requested additional detail on the specific policies within existing sections, such as Reformed National Pricing. Please see Q3 for further information on the level of detail in the SDS.
- 2.9 Some respondents did not think there was anything missing in the draft SDS-2 and that it provided a comprehensive assessment of government policies which may or will require changes to the industry codes.
- 2.10 Respondents highlighted the following as missing policy areas which they thought should be added:
- Implications and coordination of possible reintegration into the EU Internal Electricity Market (IEM)
 - Smart Data Schemes
 - “Plug-in” solar
 - Market de-linking and revenue stabilisation
 - Commercial fusion and fusion integration
 - Heat network zoning
 - Market Architecture for Industry Service and Advanced Flexibility Integration
 - System Access Reform
 - Carbon Capture and Storage
 - Energy theft reduction
- 2.11 A few called for reinstating the policy areas that were removed from SDS-2 but were present in SDS-1. These were:
- Enable competition and investability through financial resilience
 - Strengthen cyber resilience
- 2.12 Some respondents suggested that the SDS should provide greater consideration of strategic themes and cross-policy interactions that may drive future code modifications. For example, that there is a need to present a clearer strategic overview of the transition away from gas and to highlight the role of network security of supply.

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2.13 Following consideration of the consultation responses, and taking account of recent sector developments, the following policy areas have been added to SDS-2:

- System Access Reform
Added to Objective 6.1: Continue to drive accelerated onshore network investment under sub-section 'Accelerate the delivery of onshore network projects' in 'Act now' category.
- Anticipatory Investment
Added to Objective 6.2: Continue to operate and iterate the Offshore Transmission Owner (OFTO) framework in 'Act now' and 'Think and plan' categories.
- Implications and coordination of possible reintegration into the EU Internal Electricity Market (IEM)
Added below Objective 14, as 'Implications of possible participation in the EU Internal Electricity Market (IEM)' in 'Act now' and 'Think and plan' categories.

2.14 With reference to the proposed additions listed in paragraph 2.10, we consider that the following policy areas are already reflected in SDS-2:

- Market Architecture for Industry Service and Advanced Flexibility Integration
- Energy theft reduction

2.15 Further, we have decided that the following suggested policy areas will not be added to SDS-2:

- "Plug-in" solar
- Market de-linking and revenue stabilisation
- Commercial fusion and fusion integration
- Heat network zoning
- Carbon Capture and Storage
- Smart Data Schemes

2.16 Within Objective 12.1: Work with government to deliver reforms which set efficient locational incentives for investment and operation across the energy system, we have decided to separate the Reformed National Pricing section into two subsections:

- Reformed National Pricing: Balancing, Settlement and Dispatch Reforms
- Reformed National Pricing: Siting and Investment Lever Reforms

2.17 We have not reinstated the policy areas that were not contained in SDS-2 but were present in SDS-1.

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2.18 We have sought to include further information on strategic themes throughout SDS-2, including the importance of network security of supply within 10.1: Pursue security of supply and 9.2: Enable faster electricity network connections. We have included additional strategic context on the gas transition in 7.1: Recover the cost of the existing gas network.

Rationale for our decision

2.19 New policy areas have been added into SDS-2 for the following reasons:

- Accelerate the delivery of onshore network projects - the System Access Reform programme has been gathering considerable momentum with industry stakeholders contributing to the first Strategic Network Access Plan and an escalation framework. The programme is a multi-year initiative and has identified the need for several code decisions which will require implementation within 2026 - 27.
- Anticipatory Investment - since the existing arrangements were established, the network planning landscape has evolved significantly, with NESO developing more strategic and coordinated approaches to network design. Industry has also identified growing opportunities for shared infrastructure that are not fully accommodated under the current framework. We have therefore highlighted the need for future code modifications to ensure the regulatory framework can support these emerging delivery models.
- Implications of possible participation in the EU Internal Electricity Market (IEM) - as of December 2025, the [Government has agreed](#) to work towards the participation of the United Kingdom in the European Union's Internal Electricity Market (IEM) by way of an EU-UK Electricity Agreement. Discussions with the European Union are ongoing. Participation in the IEM could have significant implications for many of the industry codes. Whilst this was already mentioned within 6.3 Enhance flexibility through electricity interconnection we agree that, should negotiations prove successful, rejoining the IEM will have implications for the industry codes beyond those simply related to electricity interconnection. As such, we have added this as a standalone policy area.

2.20 The following policy areas were suggested by respondents and are already reflected in SDS-2:

- Market Architecture for Industry Service and Advanced Flexibility Integration - elements of this are considered within 13.1 Unlock consumer-led flexibility and regulate load controllers, with potential further code modifications likely to fall outside the 5-year scope of the SDS.

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- Energy theft reduction - this is mentioned within 13.2: Continue to drive the benefits of smart meters through regulatory oversight of roll-out and data flows. In response to consultation feedback, we have provided further detail on the potential modifications required to address energy theft.

2.21 The following policy areas will not be added to SDS-2 for the following reasons:

- “Plug-in” solar – we do not consider further changes to SDS-2 necessary, as Distribution Code modification decision DCRP/MP/26/02 was published on 11 August 2026. We are unaware of any further code modifications related to this policy, and therefore do not consider that amendments would provide additional strategic benefit.
- Market de-linking and revenue stabilisation – we consider that there is currently insufficient detail to identify whether any code changes need to be made. We intend to keep this under review.
- Commercial fusion and fusion integration – any potential changes that may be required to the codes are not anticipated to fall within the 5-year scope of the SDS-2.
- Heat network zoning - the heat networks technical standards code does not currently fall within the scope of the SDS or the parameters of s.182 of the Energy Act 2023⁹ and is therefore outside the industry code governance framework to which the SDS applies. We do not think that any heat network policy requires implementation through the codes that are within the scope of the SDS.
- Carbon Capture and Storage – the carbon capture and storage (CCS) Network Code does not currently fall within the scope of the SDS as defined in s. 182 of the Energy Act 2023 and is therefore outside the industry code governance framework to which the SDS applies. We do not think that any CCS policy requires implementation through the codes that are within the scope of the SDS.
- Smart Data Schemes – we do not consider it necessary to include any further detail beyond what is already included under Objective 14.1 and 14.2. Under the new Smart Meter Communication Licence, the Data Communications Company is obligated to follow Data Best Practice guidance, which sets out the use of suitably triaged and anonymised energy system data, explicitly including aggregated smart meter data.

⁹ [Section 182\(1\) of the Energy Act 2023](#) defines a "designated document" as a document that "(a) is maintained in accordance with the conditions of a relevant licence, and (b) is designated for the purposes of this Part by notice given by the Secretary of State".

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- 2.22 We consider the current approach to be appropriate given the present level of policy and implementation certainty. We will continue to monitor developments and reflect any necessary changes through future updates to the SDS.
- 2.23 We have decided to separate the Reformed National Pricing section into two new sub-sections to provide additional clarity on the expected timelines and affected codes for each workstream.
- 2.24 We have decided not to reinstate the previously removed areas into SDS-2 as we have concluded that our position remains appropriate. Please see Objective 3 and Objective 10.3 in SDS-2 for further detail.
- 2.25 We agree that stakeholders would benefit from a clearer understanding of strategic themes, including network security of supply and the strategic direction of the transition away from gas, alongside its relationship to future code development. We have therefore strengthened Objective 7.1: Recover the cost of the existing gas network to provide additional context on the government's transition objectives and the role of code governance in supporting their delivery. We have highlighted the importance of network security of supply and system stability throughout the relevant policy areas, including within Objective 9.2 and 10.1. We consider this provides a clearer strategic overview without creating a standalone policy area where the specific code implications remain uncertain or are addressed elsewhere in the SDS-2.

Question 2. Do you agree with the classification of each policy area within the three time horizons (Act now, Think & plan, Listen & wait)? If not, please specify what changes you suggest and why.

Summary of consultation responses

- 2.26 Although the majority of respondents broadly agreed with the classifications, many respondents disagreed with the classification of one or two policy areas. Specifically:
- Objective 1.2: Work with others to tackle the affordability crisis is categorised as 'Think and plan'. It was suggested to move into 'Act now'.
 - Objective 2.1: Improve protections for all consumers, particularly those in vulnerable situations is categorised as 'Think and plan'. It was suggested to move to 'Act now'.
 - Objective 5.1: Oversee production and implementation of a new Strategic Spatial Energy Plan is categorised as 'Listen and wait'. It was suggested to move to 'Think and plan'.

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- Objective 6.1: Continue to drive accelerated onshore network investment is categorised as ‘Listen and wait’. It was suggested to move to ‘Act Now’.
- Within Objective 7.2: Prepare for repurposing and decommissioning of the gas grid, Hydrogen Blending is categorised as ‘Think and plan’. It was suggested to move to ‘Listen and wait’.
- Objective 10.4: Build resilience to extreme climate events and long-term climate change is categorised as ‘Think and plan’. It was suggested to move to ‘Act now’.
- Within Objective 12.1: Work with government to deliver reforms which set efficient locational incentives for investment and operation across the energy system, Reformed National Pricing (RNP). One suggested RNP would be more appropriately classified as ‘Listen and wait’ at present, with a transition to ‘Think and plan’ and a couple suggested a reclassification from ‘Act now’ to ‘Think and plan’.
- Within Objective 13.1: Unlock distributed flexibility and regulate load controllers, Increasing market access for consumer-led flexibility is categorised as ‘Think and plan’. It was suggested to move to ‘Act now’.

2.27 A few respondents suggested that ‘sub-categories’ within the ‘Act now’ time horizon would better define urgency.

2.28 A few respondents questioned the terminology of ‘Listen and wait’ suggesting that more active wording would be more appropriate e.g. ‘Listen and readiness’. They highlighted the importance of ensuring that this doesn’t lead to de-prioritisation of important code modifications.

2.29 A few respondents (across consultation responses and workshops) suggested that Objectives 1.2 and 2.1 should also apply to the UNC and iGT UNC, due to potential future improvements in billing processes and data sharing to support consumers in vulnerable circumstances.

Decision

2.30 Following consideration of the consultation responses, we have decided, in most instances, to retain policy areas in the same time horizon in which they were included in the SDS-2 consultation.

2.31 We have decided to make the following changes to the categorisation of policy areas:

- Objective 2.1: Improve protections for all consumers, particularly the vulnerable. This objective remains in ‘Think and plan’ but we have added Priority Services Register (PSR) and Consumer Confidence work into ‘Act now’.

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- Within Objective 6.1: Continue to drive accelerated onshore network investment, Future developments for Competitively Appointed Transmission Owners (CATOs) has been moved from ‘Listen and wait’ to ‘Think and plan’.
 - Objective 8.4: Support the development of long-duration electricity storage has been moved from ‘Act now’ to ‘Think and plan’.
 - Objective 10.1: Pursue security of supply, Frequency Risk and Control has been moved from ‘Think and plan’ to ‘Act now’.
 - Objective 10.1: Pursue security of supply, Ramping Arrangements has been moved from ‘Think and plan’ to ‘Act now’.
 - Within Objective 12.1: Work with Government to deliver reforms which set efficient locational incentives for investment and operation across the energy system, Reformed National Pricing: Siting and Investment Lever Reforms remains in ‘Act now’ but we have also added this into ‘Think and plan’.
 - Within Objective 12.1: Work with Government to deliver reforms which set efficient locational incentives for investment and operation across the energy system, Reformed National Pricing: Balancing, Settlement and Dispatch Reforms remains in ‘Act now’ but we have also added this into ‘Think and plan’.
 - Within Objective 13.1: Unlock distributed flexibility and regulate load controllers, Increasing market access for consumer-led flexibility remains in ‘Think and plan’ but we have also added this into ‘Act now’.
 - Within Objective 13.2: Continue to drive the benefits of smart meters through regulatory oversight of roll-out and data flows, Smart metering and retail market operations remains in ‘Act now’ but we have also added this into ‘Think and plan’.
 - Objective 13.3: Ensure successful rollout of Market-wide Half-hourly Settlement remains in ‘Act now’ but we have also added this into ‘Think and plan’.
- 2.32 We will continue to retain the time horizons as they are with no further sub-categorisation within ‘Act now’. We will retain the categorisation label of ‘Listen and wait’.
- 2.33 We have identified that additional codes are relevant to several policy areas, as well as ones that were previously identified as ‘Unknown’. However, we have not identified the UNC and iGT UNC as relevant under Objective 1.2 and 2.1.

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Rationale for our decision

2.34 We note that the majority of respondents agree with the way policy areas have been categorised. We appreciate respondents seeking to ensure the signal being sent to industry is clear and we believe that descriptions of the time horizons bring that clarity.

2.35 Changes to the categorisation of policy areas have been made for the following reasons:

- **Objective 2.1: Improve protections for all consumers, particularly the vulnerable**
We agree that work to improve protections for all consumers is a priority. Work with industry to identify code modifications required for the Consumer Confidence programme is due to begin in Q1 2027. Any modifications required to implement PSR data sharing should be progressed as soon as possible, therefore this has moved to ‘Act now’.
- **Within Objective 6.1 Continue to drive accelerated onshore network investment, Future developments for Competitively Appointed Transmission Owners (CATOs)**
Policy decisions expected over the next year may affect the new CATO framework. Therefore, industry should be prepared to assess and progress any consequential code changes required, in the ‘Think and plan’ timeframe.
- **Objective 8.4: Support the development of long-duration electricity storage**
Ofgem has decided that LDES floor payments will be recovered through BSUoS charges and, while this was initially expected to require industry code changes, we now consider the necessary arrangements can be implemented through amendments to the NESO licence. It is possible code modifications may be required in the future.
- **Objective 10.1: Pursue security of supply – Frequency Risk and Control**
We are now expecting an update to the FRCR methodology in 2027, which will likely require code modifications within the ‘Act now’ time horizon.
- **Objective 10.1: Pursue security of supply – Ramping Arrangements**

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Observations of system behaviour have shown that operational concerns are growing rapidly with the advent of large-scale battery connections. The need for a solution to be developed quickly has increased, particularly for design of connections (for example, of batteries) before they are finalised. We expect work and resource will be required in the 'Act now' timeframe to develop an engaged solution with stakeholders in a timely manner.

- **Objective 12.1: Work with Government to deliver reforms which set efficient locational incentives for investment and operation across the energy system - Reformed National Pricing: Siting and Investment Lever Reforms**
As timelines for this work have become clearer, we agree that 'Act now' and 'Think and plan' are appropriate for this element of the Reformed National Pricing programme. Work on both transitional and legacy arrangements may require code modifications as part of RNP with timelines expected within the 'Act now' timeframe. As further work and government decisions are needed to settle the design of this programme of changes and how they will be implemented, this is reflected within a 'Think and plan' timeline. We expect ongoing engagement and collaboration with industry to shape and inform the design of charges will be needed as policy development progresses.
- **Objective 12.1: Work with Government to deliver reforms which set efficient locational incentives for investment and operation across the energy system - Reformed National Pricing: Balancing, Settlement and Dispatch Reforms**
We agree with the addition of 'Think and plan', to acknowledge the phased nature of the balancing and settlement reforms. Further detail on expected timelines and expectations has been provided under both 'Act now' and 'Think and plan' subheadings. 'Listen and wait' would imply a timeline too late to accurately correspond to when the first RNP Balancing, Settlement and Dispatch reforms are proposed to be implemented.
- **Within Objective 13.1: Unlock distributed flexibility and regulate load controllers - Increasing market access for consumer-led flexibility**
We have decided that 'Think and plan' remains appropriate for this policy area. However, we agree that the 'Act now' time horizon should also be added to reflect current work on P502, P509 & P510, to ensure decisions made on upcoming compensation code modifications are prioritised.
- **Objective 13.2: Smart metering and retail market operations**

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We have decided that ‘Act now’ remains appropriate for the majority of this policy. However, any modifications required to transition in due course to enduring governance are expected to occur later, in the ‘Think and plan’ timeframe.

- Objective 13.3: Ensure successful rollout of Market-wide Half-hourly Settlement

We have decided that ‘Act now’ remains appropriate for the majority of this policy. However, development work on the Data Integration Platform and Data Transfer Network should take place as soon as possible after completion of the MHHS programme.

2.36 More broadly, we will continue to retain the current time horizons with no further sub-categorisation within ‘Act now’ for SDS-2, as the majority of respondents noted that the categorisations are appropriate and support prioritisation of code modifications. That said, we acknowledge the growing number of ‘Act now’ priorities within the SDS, with SDS-2 having approximately 60% of policy areas in ‘Act now’ vs approximately 50% for SDS-1. We intend to consider the need for further sub-categorisation in future SDS iterations to assist with the prioritisation of industry resource and capacity in implementing change.

2.37 We will retain the categorisation label of ‘Listen and wait’ as the majority of respondents noted that the categorisations are appropriate.

2.38 UNC and iGT UNC have not, at this time, been identified as relevant under Objectives 1.2 and 2.1. We agree that the gas codes play an important role in delivering outcomes for vulnerable consumers. However, work to assess which parts of the regulatory framework could be simplified, and what consequential changes may be required to licences and codes, is still at an early stage. As a result, it is not yet possible to determine whether the gas codes are likely to be affected. We will keep this position under review as work under Objectives 1.2 and 2.1 progresses and consider whether the gas codes should be brought within scope.

2.39 We have updated the codes listed against certain policy areas to reflect additional codes that have since been identified as relevant. These updates are set out below. The use of ‘Unknown’ has otherwise been retained where future relevant codes cannot yet be identified.

- 9.2: Enable faster electricity network connections (Demand connections)
D-CODE and SQSS have been identified as codes relevant to this objective.

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It is anticipated that future changes under demand connections reform will be relevant to all electricity codes and potentially impact existing technical and security standards, which are relevant to therefore the Distribution and SQSS codes have been added.

- **10.1 Pursue security of supply (Ramping Arrangements)**
BSC has been identified as a code relevant to this objective.
We consider that in addition to modification to the Grid Code / Distribution Code, it might be necessary, depending on the exact nature of solutions, to supplement these with changes to the Balancing and Settlement Code. Commercially-driven solutions may be preferable or work alongside technical solutions, depending on the outcome of studies by NESO/industry.
- **10.1 Pursue security of supply (Emergency Contact Arrangements for industrial gas consumers)**
IGT UNC has been identified as a code relevant to this objective.
As the possibility of downstream impacts to IGT networks connected to an impacted GDN network can be anticipated, we have also included IGT UNC.
- **13.1: Unlock consumer-led flexibility and regulate load controllers (Wider barriers to consumer-led flexibility)**
CUSC has been identified as a code relevant to this objective.
Measures to enable demand turn up may require changes to charging methodologies, where code modifications to CUSC may be needed to address relevant barriers.
- **13.3: Continue to drive the benefits of smart meters through regulatory oversight of roll-out and data flows (Smart metering and retail market operations)**
BSC has been identified as a code relevant to this objective.
Changes to the BSC may be required to accommodate new classes of participants such as data users, innovators and intermediaries as smart meter data access regimes evolve.

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Question 3. 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?

Summary of consultation responses

- 2.40 The majority of respondents answered ‘yes’ to this question, with a large majority agreeing that the SDS-2 was broadly easy to understand, clear and accessible.
- 2.41 Many stated that the time horizon classifications provide a clear, structured framework, noting that this supports prioritisation and gives industry better visibility of timing, enabling more effective planning, budgeting, and alignment with future code changes.
- 2.42 Many shared that the accompanying spreadsheet (Ancillary Document 2) was a useful and effective tool to aid understanding.
- 2.43 Some respondents specifically agreed that the level of detail within the SDS-2 is sufficient to facilitate raising and implementing code changes.
- 2.44 Some noted that further detail is required or would be useful for prioritisation of work and code modifications. A few respondents stated that additional detail was required to progress a code change, however, that it could be developed with industry where required.

Decision

- 2.45 We have decided to retain the layout of the SDS. We consider that this, together with the content provides sufficient detail to support stakeholders in identifying, raising and implementing code changes, where required.
- 2.46 As such, we have decided, for most policy areas, to retain the level of detail included in the SDS that we consulted upon.

Rationale for our decision

- 2.47 We have decided to retain the way the SDS is written and content communicated as the large majority of respondents thought the SDS was easy to understand.
- 2.48 We have decided to retain the level of detail included in the draft SDS-2, despite mixed stakeholder feedback with some respondents seeking more detail. In certain areas further detail cannot yet be provided because aspects of policy implementation remain under development and the relevant information is not yet known. However, some policy areas have been updated to reflect developments and changes where required, since consultation, and therefore we find this additional detail appropriate. The SDS is a strategic document and we consider it is important that it does not become too granular or prescriptive. We may include further detail as appropriate in future iterations.

Question 4. Do you support our proposed approach to convert the SDS from a preliminary document to a hybrid document, following designation of the BSC and the REC?

Summary of consultation responses

- 2.49 The large majority of respondents agreed with our proposed approach to convert the SDS-2 from a preliminary document to a hybrid document, following designation of the BSC and the REC.
- 2.50 Many respondents agreed the proposed approach is both pragmatic and proportionate considering the phased nature of energy code reform implementation.
- 2.51 A few respondents suggested it would provide certainty to both the future code managers and other stakeholders, while avoiding the administrative burden of additional consultations.
- 2.52 A couple of respondents suggested the approach supports the delivery of code reform at pace, enabling the benefits of the SDS to be realised in advance of the designation of all codes.
- 2.53 Some respondents highlighted the importance of cross-code collaboration in this period of hybrid code governance, particularly for cross-cutting policy areas such as consumer-led flexibility and digitalisation. A few respondents suggested hybrid governance arrangements could potentially create uncertainty and duplication of effort in the absence of effective cross-code working. Suggested actions and improvements include:
- Further clarity on the responsibilities of all parties in ensuring effective cross-code working during this hybrid governance phase.
 - Further articulation of interdependencies and sequencing of modifications to assist in cross-code planning.
 - A mechanism to map and track cross-code dependencies.
 - A dedicated forum for code managers and administrators to discuss and align cross-code modifications in their delivery plans.

Decision

- 2.54 We intend to proceed with our proposal to convert the SDS-2 from a preliminary document to a hybrid document, following the designation of the BSC and the REC.

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2.55 We expect to publish a conversion letter (or letters) following the designation of the BSC and the REC. We currently anticipate designation of the REC in December 2026 and the designation of the BSC in early 2027.

2.56 These letters (or letter) will set out:

- the extent to which our conclusions contained in the SDS-2 remain unchanged for the BSC and the REC and, where applicable, explain any updates that may be included;
- that the SDS-2 is to be treated as formal in the context of section 190 of the Energy Act in so far as it applies to the BSC and the REC;
- that the SDS-2 is the document that the code manager (and other affected energy licensees and code parties) should refer to when fulfilling any obligations that relate to the SDS (in so far as they relate to the BSC and the REC). This includes the code manager licence obligation to prepare and publish a plan that details how it will facilitate delivery of the requirements of the SDS, and an annual budget relating to their activities.

2.57 We anticipate following a similar approach to future versions of the SDS, dependent on the timings of relevant code designations and SDS publications.

2.58 We agree with stakeholders that cross-code collaboration will be important in the successful delivery of this and future Strategic Direction Statements. We do not currently propose to create additional mechanisms or cross-code arrangements. Additional detail has been included within the ‘Cross-code Collaboration’ section of the SDS-2 to provide further clarity on existing cross-code mechanisms and our expectations in this hybrid governance period, including:

- Highlighting Code Administration Code of Practice (CACoP) Principle 13 and the requirement for existing code administrators to facilitate effective cross-code coordination where modifications affect multiple codes.
- Code Manager Standard Licence Condition 3 and the requirement for new code managers to facilitate cross-code coordination and the delivery of strategic priorities set out in the SDS-2.
- Treatment of cross-code modifications under the new harmonised prioritisation process.

Rationale for our decision

2.59 A large majority of respondents agreed with our proposed approach to convert the SDS-2. We agree that this approach allows for code reform to continue at pace, while both providing clarity and avoiding additional administrative burden on industry.

2.60 We acknowledge and agree with stakeholders’ view on the importance of cross-code collaboration in delivering the SDS. We remain of the view that, in advance of new governance arrangements being in place for all codes, existing forums (such

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as the CACoP and the Cross Code Steering Group (CCSG)) have an important role in ensuring effective cross-code collaboration. We encourage stakeholders to review the 'Cross-code Collaboration' section of the SDS-2 and consider how current forums and approaches could be improved to support SDS implementation. We consider that it is for industry stakeholders to facilitate and lead changes to these existing forums and we will provide assistance, if required. We will continue to keep effectiveness of cross-code working under review and will consider additional mechanisms, if required, in the development of future SDSs.

- 2.61 We note that there is an existing cross-code central modifications tracker managed by the CACoP. In addition, code managers will be required to maintain the CCSG change tracker within the new framework, with each code manager responsible for updating the tracker after each meeting.

Question 5. Do you have any other feedback?

Summary of consultation responses

- 2.62 Several respondents requested flexibility to ensure emerging urgent issues could be included in the current year. Respondents stated this was important in the case of in-year market developments that require modifications to support, for example, innovation, competition, consumer outcomes or the effective operation of the energy system. In addition, a few requested a formal mechanism for mid-year updates to the SDS.
- 2.63 A few respondents highlighted the importance of stakeholder engagement in both the SDS development process and in the development of complex code modifications.
- 2.64 Some respondents requested greater clarity regarding Ofgem's role and responsibilities in the new governance framework, including how Ofgem will work with Code Managers, provide oversight and guidance, and interact with the day-to-day management of codes.
- 2.65 A couple of respondents requested additional emphasis be placed on simplification of the codes, in relation to the government's goal to [reduce the administrative burden of regulation by 25%](#).

Decision

- 2.66 We do not propose to include an additional mechanism for mid-year updates to the SDS. However, we do agree that the code modification process must retain sufficient flexibility for code managers and others to identify and progress important changes that are not explicitly linked to SDS priorities.
- 2.67 We acknowledge the important role Ofgem has to play in the success of the SDS. We have decided to add some additional detail to the 'Roles and responsibilities'

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section of SDS-2. We also acknowledge that early engagement during SDS development is valued by stakeholders and we intend for this to continue in future years.

- 2.68 We have included new drafting under Objective 11.2 Reform energy code governance to enable faster, more strategically aligned rule changes across the sector to highlight the importance of the code manager licence condition to promote ease of use of the code.

Rationale for our decision

- 2.69 As stated in our [SDS-1 Decision](#), we do not expect to make frequent changes to the SDS mid-year. Among other things, this is to avoid re-opening budgets where possible. In unexpected or urgent circumstances, it may be necessary for us to issue an open letter or similar giving direction to stakeholders in between the publication of SDS. For example, we have stated that our planned conversion letter will set out the extent to which our conclusions contained in SDS-2 remain unchanged and where applicable, explain any updates that may be included.
- 2.70 The SDS is not intended to be an exhaustive list of priority code modifications, it is a strategic document to guide industry planning. We expect that, between SDS updates, there may be additional priorities signalled by government, Ofgem or industry to be taken into consideration.
- 2.71 The harmonised prioritisation process allows for these to be considered and prioritised alongside SDS-aligned modifications. For example, while the SDS is a key strategic driver for industry change, and this is reflected within the prioritisation criteria, it is only one of three equally weighted considerations. Modifications not directly linked to the SDS will still be important for ensuring the efficient operation of the codes and the inclusion of the importance and complexity criteria will ensure these modifications can continue to progress appropriately. Additionally, the harmonised prioritisation process doesn't apply to urgent modifications, which means that [urgency criteria](#) will still be considered separately to the SDS' consideration within prioritisation.
- 2.72 We acknowledge that early engagement during the SDS cycle is valued by stakeholders. In future years, we intend to adopt a similar approach with bilateral engagement and workshops planned during SDS development to obtain the input of stakeholders.
- 2.73 Some respondents requested greater clarity regarding Ofgem's role and responsibilities. The purpose of the SDS is to establish strategic direction rather than prescribe detailed governance or implementation arrangements. We intend to continue to reference broader Energy Code Reform publications throughout the SDS to link stakeholders to further detail on relevant decisions, where appropriate.

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2.74 However, we recognise the value of providing additional clarity in certain areas during this period of hybrid governance. Therefore, we have made the following additions to the ‘Roles and responsibilities’ section of the SDS-2:

- Further detail on our new framework of Ofgem-specific code modification metrics and key performance indicators (KPIs)
- Further detail on our regulatory approach to supervising code manager performance to ensure code managers deliver on their obligation to implement the strategic priorities set out in the SDS.

2.75 We reference the government’s goal to reduce the administrative burden of regulation by 25% in the Executive Summary of the SDS-2 and set out our aim to create a framework that is easier for the sector to engage with and enables change to be delivered more efficiently and effectively. In addition, in the ‘Roles and responsibilities’ section of the SDS-2 we also highlight the role of the standard licence condition for ease of use of the code¹⁰ and its importance in ensuring that codes are as accessible and easy to engage with as practicable.

2.76 We agree with the importance of these actions and have decided strengthen Objective 11.2 Reform energy code governance to enable faster, more strategically aligned rule changes across the sector in the ‘Act now’ category, by providing further detail about the code manager’s responsibilities in simplification of the codes, alongside examples of the actions a code manager may take.

Next steps

2.77 Following the publication of this decision and the SDS-2, we will continue to consider how to support implementation during this hybrid governance period.

2.78 We expect incoming phase 1 code managers to start developing delivery plans, setting out how they will facilitate delivery of the SDS through industry codes. Whilst current code administrators are not subject to the same licence obligation, we encourage them to consider how strategic priorities identified in the SDS can be accommodated within existing budget setting and delivery planning processes.

2.79 All codes will be expected to use SDS-2, as the most recently published SDS, to prioritise modifications under the new [harmonised approach to code modification prioritisation](#) that was introduced on 29 May 2026.

2.80 We also aim to communicate Ofgem-specific KPIs and metrics, which will provide greater transparency of Ofgem’s performance as a decision-maker on code modifications, supporting the implementation of the SDS.

¹⁰ See Chapter 1 (1.11) of the second joint government and Ofgem consultation response for further details.

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- 2.81 We expect to publish conversion letters (or letter) following the designation of the BSC and the REC. We currently anticipate designation of the REC taking place in December 2026 and the designation of the BSC in early 2027.
- 2.82 Alongside this, development will begin on the third SDS (SDS-3), currently expected to follow a similar publication timetable to this second SDS. In developing SDS-3 we expect to take account of the evolving code landscape, any Ofgem-specific SPS that has been published and the implications of consolidation for the delivery and implementation of strategic priorities.

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Appendices

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Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Appendix 1. Consultation questions

- Q1. 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.
- Q2. Do you agree with the classification of each policy area within the three time horizons (Act now, Think & plan, Listen & wait)? If not, please specify what changes you suggest and why.
- Q3. Do 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 modifications, where appropriate?
- Q4. Do you support our proposed approach to convert the SDS from a preliminary document to a hybrid document, following designation of the BSC and the REC?
- Q5. Do you have any other feedback?

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Appendix 2. Ancillary documents

A2.1 The following ancillary documents have been published on Ofgem’s website alongside this decision:

- Second Preliminary Strategic Direction Statement for industry codes
- Second Preliminary Strategic Direction Statement for industry codes spreadsheet

Appendix 3. Glossary

Acronyms	Definition
BSC	Balancing and Settlement Code
CACoP	Code Administration Code of Practice
CATO	Competitively Appointed Transmission Owner
CCS	Carbon Capture and Storage
CCSG	Cross Code Steering Group
CSDBs	Central System Delivery Bodies
CMA	Competition and Markets Authority
CUSC	Connection and Use of System Code
DCUSA	Distribution Connection and Use of System Agreement
DESNZ	Department for Energy Security and Net Zero
FRCR	Frequency Risk and Control Report
FSO	Future System Operator. Named in the Energy Act 2023 as Independent System Operator and Planner (ISOP). In 2024 it was announced that the FSO would be named National Energy System Operator (NESO)
GEMA	Gas and Electricity Markets Authority
IEM	Internal Electricity Market
IGT UNC	Independent Gas Transporters Uniform Network Code
KPI	Key performance indicator
MHHS	Market-wide Half-hourly Settlement
NESO	National Energy System Operator (the working name was previously Future System Operator (FSO))
PACT	Predictable, Agile, Collaborative and Technology-enabled
PSR	Priority Services Register
REC	Retail Energy Code
REMA	Review of Electricity Markets Arrangements
RNP	Reformed National Pricing

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SCR	Significant Code Review, a way for Ofgem to influence the existing end-to-end code change process to modify industry codes
SDS	Strategic Direction Statement means a statement prepared and published by GEMA that sets out a strategic direction for energy industry codes and contains a strategic assessment of government policies and developments relating to the energy sector, that the GEMA considers will or may require the making of modifications to energy industry codes. In this document, references to ‘SDS’ shall be taken to mean one or more of the following (as the context requires and having regard to the applicable SDS in force at the relevant point in time), (i) any preliminary Strategic Direction Statement (being a Strategic Direction Statement that addresses industry codes that have not yet been designated by the Secretary of State pursuant to section 182 of the Energy Act 2023); and (ii) a formal Strategic Direction Statement (being a Strategic Direction Statement that addresses industry codes that have been designated by the Secretary of State pursuant to section 182 of the Energy Act 2023; and (iii) a hybrid Strategic Direction Statement being a Strategic Direction Statement that addresses both designated and non-designated industry codes.
SPS	Strategy and Policy Statement, a document designated by the Secretary of State under the Energy Act 2013 (after parliamentary approval), which sets out the strategic priorities and policy outcomes for the government’s energy policy
SQSS	Security and Quality of Supply Standard
STC	System Operator- Transmission Owner Code
UNC	Uniform Network Code