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Dear Annie,

Consultation response to Ofgem's draft second preliminary Strategic Direction Statement

We welcome the opportunity to respond to Ofgem's second preliminary Strategic Direction Statement (SDS) and were grateful for the opportunity to participate in the recent Ofgem SDS workshop. Following our recent joint submission of an Expression of Interest to become the future Gas Network Code Manager, we are responding jointly as both Central Data Service Provider (CDSP) and Code Administrator.

As the CDSP for the gas industry, Xoserve is responsible for managing and maintaining the gas industry's central data systems which underpin critical processes, including metering, billing and settlement. We provide a single, consistent point of service for our customers and make sure their data is transported securely.

As Code Administrator for the Uniform Network Code (UNC), the Joint Office of Gas Transporters (operated by Encodar Ltd) is responsible for the development and governance of UNC modifications, along with the delivery of industry working groups, committees and the Modification Panel. This activity is delivered on behalf of Gas Transporters in accordance with their Licence requirements of Standard Special Condition A12 that have been in place since 2005.

We support the overall content and structure of SDS-2. Its contents provide a clear signal of the policy and regulatory environment within which future Code Managers (and other code parties) will operate, as well as supporting our

business planning process. We are also pleased to see that much of SDS-2 aligns with our existing areas of focus (as we point out in several areas).

We look forward to working with Ofgem and other code parties to ensure an effective and successful implementation of Ofgem's SDS. In the meantime, we hope you find the comments in this response useful and should you require any clarification of our views, please do not hesitate to get in contact.

Kind regards,



Clive Nicholas
Xoserve, Director of Strategy and Development



Paul McKie
Encodar, Chief Executive Officer

Part 1: Contact Details

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Do you want your response treated as confidential?	No

Part 2: Xoserve and Encodax Consultation Response

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.

- Yes

Overall, SDS-2 is a comprehensive assessment of the key drivers of expected sectoral change. There is little we would add other than to suggest there are areas where we believe SDS-2 would benefit from a broader application to the gas codes and where code changes could be required in the next 1-5 years.

Objectives 1.2 and 2.1

Objective 1.2 (*“Work with others to tackle the affordability crisis”*) we believe should also apply to the gas codes. UNC Mod Proposal 0915 – *Debt Relief Scheme Payments (DRSP)s* – for example, if approved, would see scheme changes that align with Objective 1.2 and would be deliverable within the Act Now time horizon.

Similarly, Objective 2.1 (*“Improve protection for all consumers, particularly those in vulnerable situations”*) should also apply to the gas codes. This objective includes reference to billing accuracy, which relies on data and processes supported through the CDSP.

Whilst there are no gas-specific modifications currently in flight under this objective, affordability and vulnerability are cross-cutting issues that affect all parts of the energy sector, including gas. These issues may become even more pertinent considerations in the event of a future rebalancing of levies between gas and electricity.

In that context, we actively support initiatives that seek to address vulnerability and affordability, including collaboration with organisations such as the Fuel Bank Foundation. We also see growing potential for improved data sharing across sectors to support consumers in vulnerable circumstances, including use of data held within the Priority Services Register. We therefore suggest that both Objectives 1.2 and 2.1 should be recognised as relevant to the UNC and IGT-UNC.

Objective 3 – Financial Resilience

We would support the re-inclusion of Objective 3 (*"Enable competition and investability through financial resilience"*) within SDS-2. This objective remains highly relevant to both the gas and wider energy sector - financial resilience remains critical for delivering market stability and confidence, competition, value for money and protecting consumers, all of which could drive future code activity (its re-inclusion would also support the licence route to enforce financial resilience measures).

By way of example, UNC Modification 0931S – *Introduction of an Escalation process for Transportation invoice payment* – that is currently in development, proposes the introduction of an escalation process in relation to transportation invoice payments. As such, this modification could be considered within the scope of financial resilience.

While the [Supplier Licensing Review](#) introduced in 2020 has contributed to improved market stability, there remains scope to further strengthen arrangements. Areas for consideration include enhanced onboarding requirements, fitness-to-operate assessments or financial resilience checks for shippers.

Greater information exchange between Ofgem and industry service providers could also facilitate earlier identification of financial distress, reducing the risk of costs being socialised across consumers in the event of shipper failure.

Objective 7 – Future of the gas network

Within Objective 7.1, we believe there is an important opportunity to consider more explicitly the interaction between network cost recovery with objectives 1.2. and 2.1, which focus on affordability and vulnerability. As the scale and nature of gas demand evolves -

- those least able to transition away from gas risk bearing a disproportionate share of costs, while the network must continue to be maintained safely until the final user exits
- the same concern applies to intergenerational issues relating to the recovery of gas network costs

Addressing the future of the gas network, therefore, requires a holistic approach that considers fairness, affordability and security of supply together.

Under Objective 7.2, we suggest greater consideration of disconnections alongside NESO's work on strategic planning. Data held by the CDSP could

support more informed, strategic decisions about where decommissioning or repurposing might occur over time.

In addition, Objective 7.2 could more clearly reflect the potential for repurposing gas assets for CO₂ transport. It should be noted that RIIO-2 funding enabled networks to explore this option.

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.

- Agree

We broadly agree with the proposed time-horizon classifications and consider them appropriate in most cases. Our comments below provide additional context and highlight considerations that may support effective delivery.

Objective 5 – Strategic Network Planning

In relation to Objective 5.2 (Centralised Strategic Network Plan), we note Ofgem's view that any implications for gas codes are likely to emerge over the longer term. On that basis, we agree that this objective does not necessitate *Act Now* changes for the UNC or IGT-UNC. Should future data-sharing requirements arise for the gas sector, we would be supportive of enabling this through existing governance processes.

We support the classification of Objective 5.3 (Regional Energy Strategic Planners) as *Act Now*. Data sharing will be central to the development of RESPs, and we welcome the role that central bodies can play in supporting this. In this context, Xoserve has a data-sharing framework in place with NESO and is pleased to be providing datasets to support the development of RESPs. Looking ahead, if changes to gas codes are required to enable RESP activity, early clarity – by early 2027 at the latest – would be helpful to allow sufficient time to plan and implement any UNC-related changes in a managed way.

Objective 7 – Future of the Gas Network

We support the movement of Objective 7.1 (Recovery of existing gas network costs) to *Think & Plan*. This reflects the need for clearer policy direction from government on the future role of gas, as well as the time required for the sector to plan and implement any consequential changes to the gas codes. We also note that decisions around network cost recovery are likely to align with the next RIIO price control period and should take account of both network and central system investment requirements.

We also support the splitting of Objective 7.2 (Prepare for repurposing and decommissioning of the gas grid) across *Act Now* and *Think & Plan*, recognising the differing maturity of policy areas within this objective. We welcome biomethane being placed in the *Act Now* category given its technological readiness as a homegrown low carbon gas that contributes to rural economies, is compatible with the gas grid, enhances energy security and is already being injected into the gas grid today. Both Xoserve and Encodar have been actively involved in several future of gas agenda-related areas that help justify the time horizon categorisation, as we highlight below.

As CDSP, Xoserve is providing biomethane injection data to DESNZ and the Green Gas Certification Scheme, as well as developing and delivering system capability to support unpropanated biomethane injection (under specific conditions), most recently demonstrated through the successful go-live at SGN's Girvan site in Autumn 2025.

In parallel, analysis completed through the Managing Different Gases programme has explored potential system impacts arising from future decarbonisation scenarios, including unpropanated biomethane and hydrogen blending of up to both 5% and 20%. We are also active participants in Ofgem's disconnections workshops, noting that while initial progress has been made, there remains significant work to be done to support effective industry coordination in this area.

Beyond the biomethane challenges identified during the RII-GD3 outcomes – connectivity costs and capacity – Xoserve is also working with the gas distribution networks on other biomethane challenges to support the continued growth of the sector. This includes propanation requirements and the development of future readiness reporting.

UNC arrangements for biomethane continue to be developed to enable more green gas to enter the gas network. Simplification of the process and measures to remove barriers to entry, for example, have been the focus of several recent UNC modifications administered by the Joint Office.

Further changes to enable the take-up of hydrogen include:

- enabling successful completion of two UNC Derogations to facilitate demonstration of blended hydrogen delivery to an NTS connected power generator in late 2025 (D0001) and data analysis to support hydrogen demand modelling associated with the East Coast hydrogen project (D0002)

- the 100% hydrogen trial project by SGN based in Fife required special UNC arrangements which were enabled by the Joint Office (in 2022) for future implementation beyond 2025 (UNC Modification 0799), alongside changes to Gemini and UK Link systems by the CDSP to support accurate billing
- industry and gas networks took part in UNC Review 0849R of the commercial frameworks to enable hydrogen blending covering both transmission and distribution – facilitated by the Joint Office over 2 years and concluded in 2025
- UNC arrangements for biomethane continue to be developed to enable more green gas to enter the gas network. Simplification of the process and measures to remove barriers to entry have been the focus of several recent UNC modifications enabled by the Joint Office (UNC Modifications 0900, 0917R and 0894A).

However, other aspects of this objective remain dependent on broader policy decisions, including the Future Policy Framework for Biomethane, the updated Hydrogen Strategy, along with decisions on hydrogen blending. Given the level of uncertainty in these areas, it is appropriate that elements of this objective remain within the *Think & Plan* horizon until further clarity is provided.

Objective 8 – Hydrogen and CCS

We agree with Objective 8.3 (Hydrogen pipeline regulatory framework) being classified as *Act Now*, particularly in relation to the Gas Shipper Obligation. Code modifications to support data sharing and cost recovery are already in development and due for delivery within the *Act Now* period.

Objective 10 – Security and Resilience

We support Objective 10.1 (Emergency Contacts) being categorised as *Act Now*, particularly given the increasing focus on security of supply and gas system resilience in the current geopolitical context. As the data holder for emergency contact details, we support efforts to improve the accuracy and completeness of the data held on our systems. In our roles as Code Administrator and CDSP, we are keen to work with industry participants to bring them together and identify a way forward on this topic. However, we did notice that this objective did not include the IGT-UNC.

There has already been a prominent level of customer engagement, including targeted communications to shippers encouraging them to review and update the emergency contact details for which they are responsible. In addition, several exercises have been undertaken to assess data

completeness and identify where information may be missing or require updating. This work is now being supplemented by a set of formalised monthly data completeness and validity reports, scheduled to take effect from June 2026.

Objective 11 – Code Governance Reform

We agree with the *Act Now* classification of the objectives under 11.2 (Code Reform) and are actively monitoring and preparing for the changes envisaged. However, we do have concerns over being able to deliver the *Act Now* objectives - expected delivery by end April 2028 - without appropriate funding through the existing arrangements.

As Code Administrator, the Joint Office has been working closely with Ofgem and industry to ensure that changes being brought in ahead of Code Manager appointment – including the new modification prioritisation process – are implemented efficiently and effectively. In parallel, both Xoserve and Joint Office have nominated representatives to participate in the UNC and IGT-UNC consolidation workgroups. Encodar and Talan, as the current code administrators for the UNC and IGT-UNC respectively, have also been working together to identify opportunities for consolidation in line with Ofgem's published scope.

We also support the classification of the Net Zero Code Objective as *Listen & Wait* while Ofgem undertakes its holistic review of code objectives. However, we emphasise the importance of ensuring that net zero considerations are meaningfully embedded within code reform outcomes. Given the overarching focus of the SDS on enabling progress towards net zero, alignment between code objectives and the SDS would be desirable.

Objective 14 – Digitalisation and Innovation

We support the classification of Objectives 14.1 and 14.2 as *Act Now*, recognising the need to accelerate progress in this area to support system efficiency, innovation and improved consumer outcomes. As the CDSP, digitalisation and effective data management are core to Xoserve's role, and we are keen to enable wider and more effective use of the data we hold in a way that supports cross-sector objectives.

While we support the need to move at pace, we also stress the importance of early and continued engagement to ensure that any changes are implemented effectively, recognising the complexity and interdependencies of central market systems. In this context, we agree with Ofgem's decision to

introduce Data Best Practice through code manager arrangements, rather than implementing this in advance, as this should streamline the process.

Nevertheless, Xoserve has already factored Data Best Practice requirements into its 2026 Business Plan and has begun readiness activity in advance of formal implementation. This includes the launch of a Digitalisation Strategy in June 2026, aligned to Data Best Practice principles, with a focus on transparency, accessibility, interoperability and improved stakeholder experience. Current enablers within this strategy include Project Trident, the Data Discovery Platform, BP26 service enhancement activity, cloud exchange and strengthened data access frameworks. Over time, this approach is expected to evolve towards a more formal Digitalisation Strategy and Action Plan model.

We also support the re-prioritisation of the adaptability for innovation objective to Act Now. Xoserve has launched Project Trident, a significant programme of work to modernise Xoserve's UK Link platform, estimated to be delivered between 2027 – 2030. Through this technical modernisation, we hope to be able to test and deliver more innovative solutions for customers.

Finally, while Objective 14.3 (Artificial Intelligence) is not currently expected to require code modifications, we recognise its growing relevance and are actively considering its responsible application, including the governance, transparency and risk considerations associated with the use of AI across the energy sector.

Within wider Digitisation Policy consideration, for example, we would suggest that there is a case for the digital delivery of the regulatory code itself (the Uniform Network Code (UNC)) in clear alignment with the objectives of governance, sharing and enabling innovation. Diligently implemented this would facilitate improved code management, development, and risk assessment as well as improved coordination with the Code Parties themselves, as well as integration with other industry Code bodies, to the ultimate benefit of consumers.

Question 3 – 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?

- Yes

Overall, we found the SDS to be a clear and logically structured document. In many areas, the level of detail provided is sufficient to support initial

consideration of code change, particularly where activity is already underway or where policy direction is well developed.

However, we note that a significant proportion of gas-related objectives are categorised as *Act Now*, while progress in several of these areas remains dependent on further policy clarity from government or decisions from other bodies that sit outside the control of code administrators and central service providers. In these cases, the SDS provides helpful strategic intent but limited detail on how objectives should translate into actionable code changes in the near term.

This lack of clarity may also have implications for the operation of the new code modification prioritisation process, which requires assessments of whether proposed changes represent high or low priority activity aligned to SDS-2. Where objectives are high-level or dependent on external decisions, it can be challenging to apply this prioritisation consistently.

We would also welcome further guidance on how delivery plans are expected to be developed in practice, including the level of detail required, how dependencies should be reflected, and how progress will be assessed over time.

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?

- Yes

As highlighted in previous consultation responses, we support the delivery of energy code reform at pace. In that context, we agree with Ofgem's proposed approach to transition SDS-2 from a preliminary to a hybrid document following designation. Enabling designated codes to begin developing delivery plans at the point of designation, rather than waiting for all other codes to reach the same stage, is a pragmatic and proportionate approach.

Furthermore, producing the first iterations of delivery plans at this stage would be beneficial in enabling subsequent code managers to learn from the experiences of RECCo and Elexon. This approach would also provide Ofgem with an opportunity to reflect on these initial approaches and provide clearer guidance on its expectations for future iterations.

Question 5 - Do you have any other feedback?

Within the Strategic Policy Context section of SDS-2, reference is made to a “decreased demand for natural gas.” While we recognise and support the long-term trajectory implied by this statement, we suggest that the future of the gas network would benefit from more nuanced representation.

As seen in NESO's 10-year forecast natural gas demand is predicted to be relatively similar in 2035 to today's figures – around 586 TWh. Looking further ahead the Future Energy Scenarios projects a future gas demand range between 166 to 398 TWh by 2050. The recent DNV report also identifies a long-term role for gas, estimating 25% of the gas network will still be operational by 2060 and 5 million homes will still use gas for heating. Furthermore, as seen in the data held by the CDSP, gross connections to the gas network continue to exceed disconnections. Gas networks have also noted an increase in data centre connection enquiries.

Given this, we consider that characterising gas demand solely as “decreasing” risks underrepresenting the continued and evolving role of the gas system. Although demand will decline over time, the design of a future, cost-effective whole energy system will ultimately determine the role of different energy vectors, and gas will undoubtedly continue to play a necessary part within that system. As such, the gas network will remain a critical component of the whole energy system for several decades - continuing to need to operate safely, efficiently and in a way that supports consumers and security of supply.