
Consultation on the draft second preliminary Strategic Direction Statement – response template

This document provides a template for responses to our consultation on the second preliminary Strategic Direction Statement, published on 2 April 2026.

If you are interested in responding to this consultation, please complete this word document and send it to industrycodes@ofgem.gov.uk by the end of the day on Thursday 28 May 2026.

Guidance

We typically publish consultation responses when we publish our decision. To ensure that we can correctly attribute your response, please ensure that you enter all relevant details in the “your company’s details” section (template part 1).

If you would like us to treat your response as being confidential, either in full or in part, please indicate this to us below. Further information on how we will treat your response, data and confidentiality can be found at the end of this document.

Please use template part 2 to provide your responses. For all questions, the template below provides space for you to enter free text comments. Some questions also ask whether you agree with our proposals. Please indicate the extent to which you agree or disagree with relevant proposals by deleting all but one of the bullets provided.

There is also a section for “general feedback” (template part 3). Please use this section to provide any views on the overall consultation process.

Template part 1: Your organisation’s details:

Contact name	Victoria Burkett
Role title	Regulatory Compliance Manager
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Date of submission	28 May 2026
Do you want your response treated as confidential?	No

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(If yes, please indicate whether you would like the whole of your response to be confidential, or just particular parts).	
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Template part 2: consultation responses

Consultation section 2 – Approach to the Strategic Direction Statement

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

Comments:

Based on current sector trends and recent government announcements (as of May 2026), the following areas could be considered "missing" or requiring more explicit detail to ensure code readiness over the next 1–5 years:

1. Market De-linking and Revenue Stabilisation

The government's 2026 proposals to "de-link" electricity costs from gas price volatility represent a fundamental shift in wholesale market dynamics. While RNP (Reformed National Pricing) is mentioned, the specific code modifications required to implement the Wholesale Contract for Difference (WCfD) for legacy renewable generators (planned for 2027) are not yet fully scoped. This will likely require significant changes to the BSC to manage new payment flows and settlement categories.

2. Digital Infrastructure and Data Centre Regulation

While "Digitalisation" is a broad objective in SDS-2, the specific regulatory requirements for large-scale data centres are intensifying. With the introduction of "AI Growth Zones" and new statutory deadlines for data centre connections, the Grid Code and CUSC may need more granular modifications to handle these changes.

3. Fusion and "Deepwater" Offshore Wind

New technology categories introduced in early 2026, such as "Other Deepwater Offshore Wind" and the government's vision for a commercial fusion industry, will require technical standard updates.

Fusion Integration: Though long-term, the initial regulatory framework for fusion pilot plants may require early scoping within the SQSS (Security and Quality of Supply Standard) to ensure these high-output, non-traditional generators can be safely integrated into the system.

4. Smart Asset "Plug-and-Play" Solar

With the government's March 2026 approval of "plug-in solar" for households, there is an immediate need for code modifications to the Distribution Code and REC. Currently, registration and safety requirements for sub-kilowatt, consumer-installed generation are complex. Missing from the SDS is a streamlined, automated "notify-and-fit" process for these assets to ensure they are visible to DNOs without creating a barrier to entry for domestic consumers.

5. Multi-Vector "Zoning" Impacts

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The expansion of Heat Network Zoning (mandated from early 2026) will create "demand assurance" areas. This has a direct impact on the UNC regarding the decommissioning of gas assets in specific zones. The SDS could benefit from a clearer link between the Regional Energy Strategic Plans and the commercial code modifications required to manage the transition of entire streets or zones away from gas in a way that protects remaining "captive" consumers from rising costs.

6. Holistic Market Architecture for Industry Services and Advanced Flexibility Integration

Beyond individual asset classes, the SDS-2 requires a dedicated focus on the overarching commercial architecture that binds system operators, suppliers, and third-party intermediaries together. As the energy system becomes increasingly decentralised and reliant on dynamic, real-time balancing, the current code frameworks risk creating fragmented, siloed markets that restrict liquidity and stall private investment. To ensure true code readiness over the next 1–5 years, the SDS must explicitly direct the scoping of code modifications in the following areas:

- **Virtual Trading Party (VTP) Harmonisation and Credit Reform:** The role of non-physical market participants, such as VTPs, will be critical in providing liquidity as wholesale markets de-link from gas volatility. However, current BSC credit cover methodologies and imbalance settlement rules are engineered around traditional, asset-heavy physical generators. Missing from the SDS is a requirement to modernise the BSC's credit risk frameworks to reduce the disproportionate capital collateral requirements currently imposed on VTPs, thereby lowering barriers to entry and enabling secondary industry services to offer robust revenue-stabilisation products to the market.
- **Commercial Frameworks for Stacked Flexibility Value Streams:** Valuable consumer and grid flexibility remains locked because the industry codes do not support a standardised mechanism for "value stacking." Currently, a single flexibility asset (such as a co-located commercial battery or an EV fleet aggregate) face conflicting technical requirements and penalties if it attempts to participate simultaneously in local DNO distribution markets (DCUSA/D-Code) and national balancing or ancillary markets (BSC/Grid Code). The SDS must direct an "Act Now" cross-code modification to establish harmonised baseline rules for multi-market dispatch, ensuring that data flows, performance verification, and settlement periods are fully interoperable.
- **Standardised Intermediary and Aggregator Contracts:** The market lacks a simplified, low-burden rulebook governing the commercial interfaces between independent flexibility aggregators and traditional Licensed Suppliers. The prolonged nature of past modifications (such as P415 and P444) demonstrates that a piecemeal approach to supplier-aggregator relationships creates severe regulatory drag. The SDS should mandate a consolidated, code-governed framework that standardises data-sharing requirements, automates financial compensation for supplier energy displacement, and provides a clear dispute-resolution path. This will give aggregators the stable regulatory foundation needed to scale commercial flexibility offerings to both industrial and domestic consumers.

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.

- Disagree

Comments:

Regarding the classification of policy areas within the three time horizons, we generally support the structural clarity provided by the Act Now, Think & Plan, and Listen & Wait framework. This tiered approach is essential for providing the industry with a long-term investment signal, allowing code administrators and market participants to align their multi-year budgets and resource planning. We specifically agree with the 'Act Now' classification for MHHS and Connections Reform. These are the primary technical enablers for a decarbonised system, and any delay in these areas would directly jeopardise the government's Clean Power 2030 ambitions.

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However, we believe certain adjustments are necessary to align the SDS with current implementation realities. We suggest moving all code modifications related to Regional Energy Strategic Plans (RESPs) from 'Think & Plan' to 'Act Now'. Since the legal powers for these plans are being granted through the Planning and Infrastructure Act 2025, and DNOs are currently making critical investment decisions for the ED3 price control, the code rules in D-Code and DCUSA must be implemented by 2027. Failure to prioritise these changes immediately will create a disconnect between regional strategic planning and actual grid investment.

Conversely, we propose that Hydrogen Blending should be moved from 'Think & Plan' to 'Listen & Wait'. Following the Ofgem Review in April 2026 and the 2025 Spending Review, government priorities have shifted decisively toward electrification and industrial CCUS. Without a definitive "Go/No-Go" decision on large-scale domestic blending, prioritising code changes for the UNC and IGT-UNC at this stage risks "wasted effort." Moving this to a later horizon would allow code managers to focus limited resources on more certain priorities, such as gas network decommissioning and biomethane integration.

Finally, we wish to highlight the risk of "Resource Saturation" within the 'Act Now' category. As currently drafted, the volume of high-priority modifications—including Reformed National Pricing (RNP) and Phase 1 of Code Governance Reform—may exceed the industry's capacity to deliver. We recommend that Ofgem introduces a "Primary Priority" sub-tier within the 'Act Now' horizon. This would ensure that critical system security and consumer protection modifications are not delayed by the sheer volume of concurrent strategic changes, providing a more realistic and deliverable roadmap for the next two years.

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?

- No

Comments:

We find the draft second preliminary SDS to be a significant improvement in accessibility compared to previous strategic assessments. The use of a structured hierarchy based on Ofgem's Multiyear Strategy objectives, combined with the "Act Now, Think & Plan, Listen & Wait" time horizons, provides a clear and intuitive framework. In particular, the inclusion of Subsidiary Document 2 (the sorting spreadsheet) is a highly effective tool. It allows stakeholders to quickly isolate which policy areas impact specific codes, which is a practical necessity for code administrators who must manage complex, multi-code modification roadmaps.

However, while the document is easy to understand from a strategic perspective, the level of detail varies across different policy objectives. For mature workstreams like MHHS or Connections Reform, the SDS provides sufficient clarity to allow industry to raise and implement modifications. In these cases, the "direction of travel" is well-supported by previous consultations and technical scoping, meaning code panels can move directly into the drafting of legal text and system requirements.

In contrast, several newer policy areas in the "Act Now" category, such as Reformed National Pricing (RNP) and Strategic Demand Connections, currently lack the granular detail needed to begin formal code modification processes. While the high-level policy intent is clear, industry stakeholders require more specific "design principles" from Ofgem and government to avoid the risk of raising multiple, conflicting modifications. Without a clearer definition of the technical boundaries—for instance, the specific mechanisms for "locational incentives" under RNP—there is a danger that the code modification process will stall at the workgroup stage as parties debate the underlying policy intent rather than technical implementation.

Finally, we suggest that future iterations of the SDS could be further strengthened by including explicit "Cross-Code Impact Maps" for complex objectives. Many "Act Now" items, such as Smart Secure Electricity Systems (SSES), require simultaneous and perfectly synchronised changes across the REC, SEC, and BSC. Providing a higher level of detail on the expected sequence of these cross-code changes would greatly assist code managers in coordinating their delivery plans and would reduce

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the administrative burden on industry participants who must navigate these overlapping governance frameworks.

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

Comments:

We support the proposed approach to convert the SDS-2 from a preliminary document to a hybrid document following the designation of the BSC and the REC later this year. This "hybrid" phase is a pragmatic solution to the reality of a multi-staged energy code reform. By treating the SDS as a formal document for the first designated codes, Ofgem provides the incoming licensed Code Managers with the necessary legal certainty to prepare their 2027/28 delivery plans and budgets. This prevents a "regulatory vacuum" during the transition period and ensures that the strategic momentum built during the preliminary stages is not lost.

However, the success of this hybrid approach depends on the clarity of communication during the transition. While we agree that a further full consultation after designation is unnecessary, Ofgem must ensure that the "conversion letter" clearly specifies any material updates. As the energy landscape can shift rapidly, it is vital that the letter accompanying the conversion confirms whether any new government policy developments between September and the end of 2026 have altered the priorities for the BSC and REC.

Furthermore, we wish to highlight the potential for "governance divergence" that a hybrid SDS may create. During this phase, some codes will be legally obligated to deliver against the SDS under a licensed Code Manager, while others will still be operating under the legacy "Code Administrator" framework without the same statutory weight behind the document. Ofgem and the future Code Managers must work closely to ensure that cross-code modifications—where a designated code and a non-designated code are both impacted—do not stall due to these differing levels of legal obligation.

Finally, we welcome the intention to follow a similar process for future phases of code reform. Avoiding redundant consultation cycles reduces the administrative burden on industry and allows stakeholders to focus on implementation. We suggest that for future "hybrid" transitions, Ofgem maintains a centralised, live digital tracker that clearly identifies the status of each policy area (formal vs. preliminary) for each code, ensuring that all market participants understand which obligations are currently binding.

Question 5 - Do you have any other feedback?

Comments:

While we welcome the strategic clarity provided by the SDS-2, we would like to emphasise the critical need for Cross-Code Coordination as the governance framework transitions to a hybrid state. Many of the "Act Now" priorities, particularly Consumer-Led Flexibility and Digitalisation, are inherently cross-sector. There is a risk that as the BSC and REC move into the new licensed Code Manager model, they may develop solutions that are technically or commercially incompatible with codes still under the legacy framework, such as the UNC or CUSC. We recommend that Ofgem facilitates a dedicated "SDS Delivery Forum" where Code Managers and Administrators can synchronise their roadmaps to prevent "siloes" development of cross-code modifications.

Furthermore, we believe the SDS must place a much stronger, explicit emphasis on Regulatory Simplification and the Removal of Red Tape. The government has set an ambitious 25% target for reducing the administrative burden of regulation, and the SDS is the ideal vehicle to operationalise this across the industry codes. While the current statement focuses primarily on adding or modifying rules to meet new policy goals, it must also actively address the wider bureaucratic barriers that stifle market entry.

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To unleash sustainable economic growth, the SDS should direct Code Managers to identify, streamline, and "prune" obsolete or redundant code provisions, moving away from over-engineered compliance structures that act as a barrier to entry for small-scale innovators and green-tech startups. Implementing a "one-in, two-out" principle for code modifications where appropriate, alongside replacing archaic data-sharing protocols with modern, frictionless API standards, would actively remove cross-sector red tape. Lowering the cost of regulatory compliance allows market participants to redirect capital toward commercial scale-up and deployment, unlocking productivity gains in alignment with central government growth objectives.

This proactive reduction of red tape ties directly into the Enablement of Innovation and Growth as a primary statutory objective. Regulation should act as a catalyst for investment rather than a barrier. The framework for "Adaptability for Innovation" introduced in SDS-2 must be treated as an essential economic tool, not a marginal exception. Code Managers must be empowered to create open, flexible code architectures that support fast-tracked trial licenses, cross-code derogations, and automated "notify-and-fit" registration pathways. Providing innovators with a frictionless route to test and commercialise new flexibility services, advanced data technologies, and algorithmic industry products directly supports private sector investment, enhances market competition, and drives down the net cost of the energy transition for the entire economy.

Regarding the Consumer Interest Framework, we support the alignment of code changes with outcomes such as "Fair Prices" and "Resilience." However, we suggest that Ofgem provides more guidance on how Code Managers should weight these interests when they conflict. For example, a modification that improves "Low-Cost Transition" might inadvertently increase "Cyber Resilience" risks or short-term "Fair Price" costs. Clearer guidance in the SDS on Ofgem's hierarchy of consumer interests would help code panels and workgroups reach consensus more quickly during the modification process.

Finally, we wish to comment on the Timing and Frequency of the SDS. While we appreciate the annual update cycle, the "September publication / December conversion" timeline is very close to the period when many firms finalise their business plans for the following April. To allow the SDS to truly drive industry behavior, we encourage Ofgem to move toward a "rolling" SDS update model or provide a "pre-consultation signal" earlier in the year. This would ensure that the strategic direction is factored into corporate strategies and resource allocations long before the formal modification proposals are raised.

Template part 3: General feedback

We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to the following questions.

Question	Response
Do you have any comments about the overall process of this consultation?	
Do you have any comments about its tone and content?	
Was it easy to read and understand? Or could it have been better written?	
Were its conclusions balanced?	

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Did it make reasoned recommendations for improvement?	
Any further comments?	

Your response, data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.