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Sent by email to: industrycodes@ofgem.gov.uk

Dear Annie and Ofgem Codes Team,

RE: Consultation on the draft second preliminary Strategic Direction Statement (SDS)

Thank you for the opportunity to respond to this consultation on behalf of the SSE Group¹. In line with our response to last year's consultation on the first preliminary SDS, we again commend the quality of work within the SDS and the potential value this document can provide in fostering closer collaboration between Ofgem, Government and industry. A single document that contains an assessment of all GB energy policy whilst assigning a prioritisation ranking to each area provides significant value to all stakeholders involved.

In the appendix subsequent we have provided our view on the SDS content, such as the assignment of time horizons to each work area. We wanted to use this cover letter to highlight some structural feedback relating to the production of the SDS as an enduring regulatory instrument.

(i) Increased focus on policy detail will deliver a more effective document. Whilst acknowledging the SDS document is already greater than 100 pages in length, providing as much detail and analysis as possible will greatly increase the usefulness of the SDS. The code impacts are ultimately downstream from the policy decisions and time horizons allocated through the SDS, so whilst we appreciate that a large portion of the document is focussed on the code changes required, ensuring that the policy detail is as thorough as possible will deliver a more effective document. When considering the trade-off between excessive length and detail, on balance, our view is that the increased detail is worthwhile, and that the accompanying summary spreadsheet is an effective tool for managing the length of the document.

(ii) The SDS must include optionality to be reactive and flexible. Many regulatory developments are often announced at pace and without foresight. The implications of these decisions can also be wide ranging, potentially impacting multiple codes at the same time in a variety of different manners. For example, the outcome of the Reformed National Pricing (RNP) programme will deliver material changes for industry, yet the outcome on the industry codes itself is difficult to predict. Ensuring the outcomes of critical programmes such as these can be reactively addressed in the SDS will be key, especially when considering that code managers will use the SDS to inform their own delivery plans. Further, the structure of the SDS must also be flexible to account for updates to interlinked documents. For example, Ofgem's Multiyear Strategy, which determines the design of the SDS framework, was published in 2024 and is due for revision,

¹ The SSE Group is one of the largest UK listed companies and includes six business units – SSE's Network Businesses (SSEN Distribution, and SSEN Transmission) and SSE's Energy Businesses (SSE Renewables, SSE Thermal, SSE Energy Solutions, and SSE Energy Markets).

and the Ofgem specific Strategy and Policy Statement (SPS) announced by DESNZ through the Review of Ofgem, could both alter the design of future SDS publications.

(iii) Highlight clear roles and responsibilities for all of industry to implement the SDS. Given that the first live SDS is due for publication next year, and that the first code managers are expected to be operational for the phase 1 codes from November 2026, the SDS should include a section that concisely outlines what the roles and responsibilities of all involved stakeholders are, inclusive of Ofgem. For example, the final decision on code manager standard licence conditions was confirmed in March this year. Outlining what is expected of the code manager via its licence conditions with relation to the SDS would be helpful for industry understanding as we move towards this newly reformed code system. Our experience from discussing code reform with other impacted stakeholders is that it has been difficult to follow closely given the high number of consultations, and that Ofgem summarising in a concise manner what is expected of each party with regards to new initiatives such as the SDS would help guarantee that industry stakeholders fully understand what is expected of them.

We recognise the effort Ofgem has put into this programme of work so far and we remain fully committed to ensure that the implementation of the SDS is successful and look forward to discussing further in the future. To confirm, our response is not confidential.

Yours sincerely,

Nicholas Phillips
Regulation Manager

Appendix 1: SSE response to 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.

The SDS contains a comprehensive assessment of the energy sector and what is to be expected over the next 5 years. It is difficult to know in advance what the developments in the energy policy and regulation space will be over this timeframe. Our views from point (ii) of our cover letter above, i.e. that the SDS must include optionality to be reactive and flexible, reflects these concerns and that although the SDS will be republished annually, it is important that the content remains flexible to represent the fast-paced environment. This is particularly important given that code managers will design their delivery plans with regards to the SDS content at the time of commission. For areas missing, we have outlined these below.

Recognising the Strategic Importance of Network Security

Many of the SDS-2 objectives such as network expansion, strategic planning, and flexibility and resilience, will both influence and depend upon network security. This linkage is important as the energy system becomes increasingly electrified and decentralised, with growing reliance on non-synchronous generation.

However, network security is not explicitly recognised as a distinct strategic consideration within SDS-2. For example, objective '*10.1 Pursue security of supply*' focuses on generation adequacy, including intermittent renewables, retiring thermal capacity and long duration flexibility, but does not explicitly include the role of electricity network resilience and redundancy. More broadly, whilst SDS-2 places emphasis on system resilience and includes related topics such as Frequency Risk & Control and Grid Forming, electricity network security is not clearly defined as a core component of ensuring wider system resilience. We consider this distinction important given that alignment with the SDS will form part of the prioritisation framework for future code modifications. Progressing technical code (e.g. SQSS) modifications related to network resilience and redundancy could be more challenging without clear SDS alignment.

Linked to network security and the importance of progressing related electricity technical code modifications are the evolving requirements of the energy transition and associated government and regulatory policy objectives. The SDS-2 contains several strategic objectives that will influence and depend on electricity network security, one example of this is objective '*9.2: Enable faster electricity network connections*' which includes '*Act Now*' code changes for enabling demand connections reform. Large demand connecting to the electricity network at the scale proposed is unprecedented, and in turn is driving analysis and modelling of electricity network impacts and risks, and ultimately network adaption to large strategic demand connections will drive technical code modifications. We would therefore welcome more explicit recognition of network security within the SDS, either through a standalone objective or clearer reference across relevant objectives. This would help support appropriate prioritisation of modifications required to maintain and develop network security as the electricity system evolves.

Strategic Demand Growth and Implications for Transmission Planning Standards

We recognise that initial implementation of strategic demand connections reform is expected to focus primarily on connection governance, queue management and process reform through codes such as the

CUSC and STC. However, the scale and characteristics of anticipated strategic demand growth, including increasingly large demand loads on the system, are also expected to create wider transmission planning, operation and network security considerations. The *'Think and Plan'* section under objective 9.2 asks stakeholders to consider changes that may be required as the system evolves towards an increasingly electrified economy with larger demand loads, including from data centres. However, unlike the *'Act Now'* category, which identifies relevant codes for connections reform, the *'Think and Plan'* category does not specify impacted codes. We consider that technical codes such as the SQSS are likely to be affected as demand connections reform evolves.

Although the impacts of strategic demand connecting to the network at pace and scale are not yet fully defined, current government and regulatory direction indicates the potential for an increasing focus on accelerating strategically important demand, including through flexible, non-firm and ramped connection arrangements. The unprecedented scale, concentration and operational characteristics of such a type of connection may challenge existing approaches to transmission planning and operation, particularly where flexibility assumptions evolve over time, giving rise to important network operability, security and resilience considerations. There may therefore be a need to consider whether existing technical and security standards within codes such as the SQSS remain appropriate as strategic demand connections develop, particularly where the characteristics and impacts of these connections are not yet fully understood.

Q2) Do you agree with the classification of each policy area within the three time horizons (Act now, Think and plan, Listen and wait)? If not, please specify what changes you suggest and why?

We agree with the majority of the assessment and classification of each area within the SDS. There are some areas that we have concerns, these include:

- **1.2 Work with others to tackle the affordability crisis** - Whilst we note the helpful policy context that acknowledges the work progressed to date, this area should be classified as *'Act Now'* given the material impact on GB consumers, regardless of whether the policy position has been finalised. With phase 1 codes impacted by this area, it makes sense that the prioritisation is defined as *'Act Now'* so that the code manager can begin adequately planning.
- **5.3 Establish Regional Energy Strategic Plans** - We agree with the prioritisation categorisation but note that Regional Energy Strategic "*Planners*" is not a term used more widely by NESO or Ofgem and that Regional Energy Strategic "*Plans*" is. The objective for this area would be more accurately defined as the Development of Regional Energy Strategic Plans by NESO.
- **9.2 Enable faster electricity network connections** – Regarding the policy context, the narrative highlights that the pace of connecting to the grid will be increasing. However, whilst connections reform has 're-jigged' the queue, there is little evidence that projects will connect more quickly. It is important that this nuance is captured accurately to reflect the state of play within connections reform. Ultimately, Ofgem retains a key role in connections reform and although this area has moved to implementation, there is still much to do to ensure the process is fit-for-purpose in order to allow parties to deliver.
- **14.1 and 14.2 Set governance and standards to digitise system data and improve data sharing and enable innovation across the sector** - Principles such as these would better serve as an enduring aim within every SDS statement, as data standards and innovation are continuous

ambitions for all parties in the energy system. Updating the SDS with its own category for incremental improvements to codes could better capture areas like these.

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?

Yes, overall, the SDS is easy to understand. The document is clearly organised and labelled, which alongside the summary spreadsheet, makes navigating the content accessible. In line with our cover letter point (i), the SDS should prioritise having as extensive as possible policy detail and analysis for each work area. Understanding Ofgem's view and linking the relevant documents helps increase transparency and gives greater context for the rationale behind Ofgem's decision making on areas such as prioritisation.

We also reference point (iii) from our cover letter on roles and responsibilities, and believe that the document's usefulness would be improved by having a summary of what is expected and required to implement this new instrument. This would be particularly beneficial for parties who have not been engaged with code reform and would help as a reminder to clarify for those involved how the new code governance system works together. Whilst the SDS is easy to follow, we have provided a couple of suggestions for improvement below:

Translating Strategic Objectives into Technical Code Implementation

We recognise that SDS-2 is intentionally strategic and high-level in nature, and welcome the identification of objectives and impacted codes expected to support delivery. However, for technical codes such as the SQSS and Grid Code, translating strategic policy objectives into effective code modifications may remain nuanced, particularly where changes interact with existing technical standards and planning assumptions. Consideration should be given to how code parties can be supported in progressing technically complex modifications aligned with SDS-2 objectives. Early engagement between Ofgem, Transmission Owners and, where appropriate, other technical stakeholders could help identify the areas of technical codes most likely to require modification, as well as the intended technical or policy outcomes.

Listen & Wait time horizon

While we broadly agree with the intention behind the three time horizons, we have some reservations about the clarity and usefulness of the '*Listen & Wait*' category. We understand this is meant to highlight areas where changes might be needed in the future. However, the level of detail provided is limited, and in many cases simply states that changes may be required without giving much sense of what those changes could potentially look like. In turn, this makes the category feel vague and harder to interpret in practice. Providing more detail on the likely direction or the types of changes that might be expected would make this category more useful and easier to understand in the context of the wider framework.

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?

Yes, this is a sensible approach. As mentioned in our other code reform consultation responses, one of the significant concerns with reforming the codes governance has been how to manage this whilst the existing process remains live. The transitional arrangements to account for phase 1 going live later in this year are sensible, and we note that the next SDS due in 2027 will again require some form of transitional requirements as the future phases of code reform progress.

Q5) Do you have any other feedback?

All feedback is included within the cover letter and appendix above.