



***Drop in: Ofgem's Draft
Preliminary Strategic
Direction Statement
(SDS)***



Welcome & Housekeeping

During the event, please:

- Keep your microphone off
- Use the chat to ask questions or raise your hand
- Interact with the whiteboards
- Participate in our polls
- Keep questions relevant and avoid mentioning other organisations
- Questions may be visible to others after the event
- This event will be recorded and shared on our YouTube channel and website

Thank you

Your Speakers



Jon Dixon

Director of Development
& Strategy



Ayesha Uvais

Customer Insights Manager



01 Purpose of the session

Draft Preliminary Strategic Direction Statement (SDS)

Purpose of the session

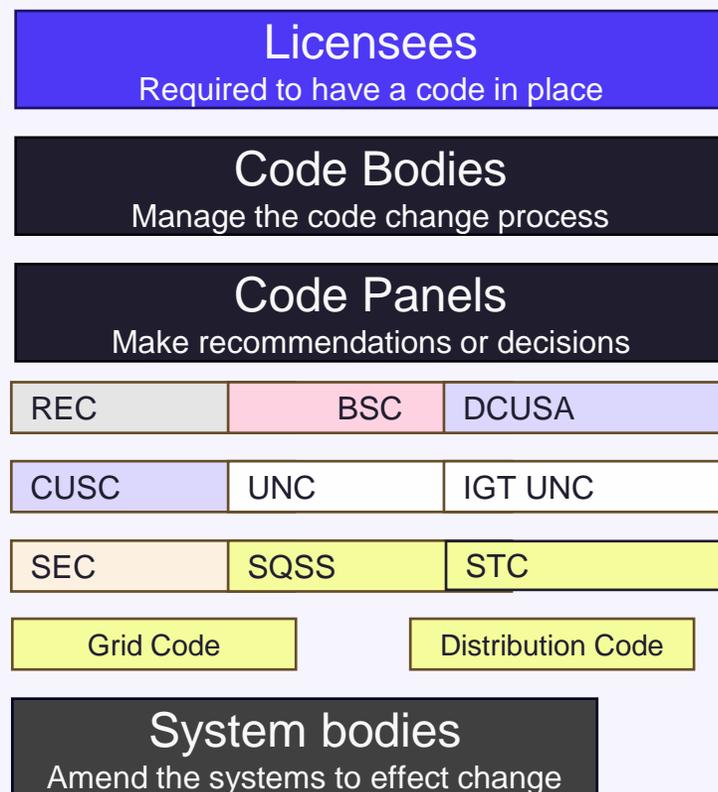
- Overview of Code Reform
- Provide a summary of Ofgem's approach to the Strategic Direction Statement
- Provide our initial thinking on the key issues and seek your views
- Highlight two SDS consultation policy issues:
 - Prioritisation criteria for change proposals
 - Cooperation licence requirement for SDS change proposals
- Our considerations for developing the deliver plan of the SDS

What is code reform?

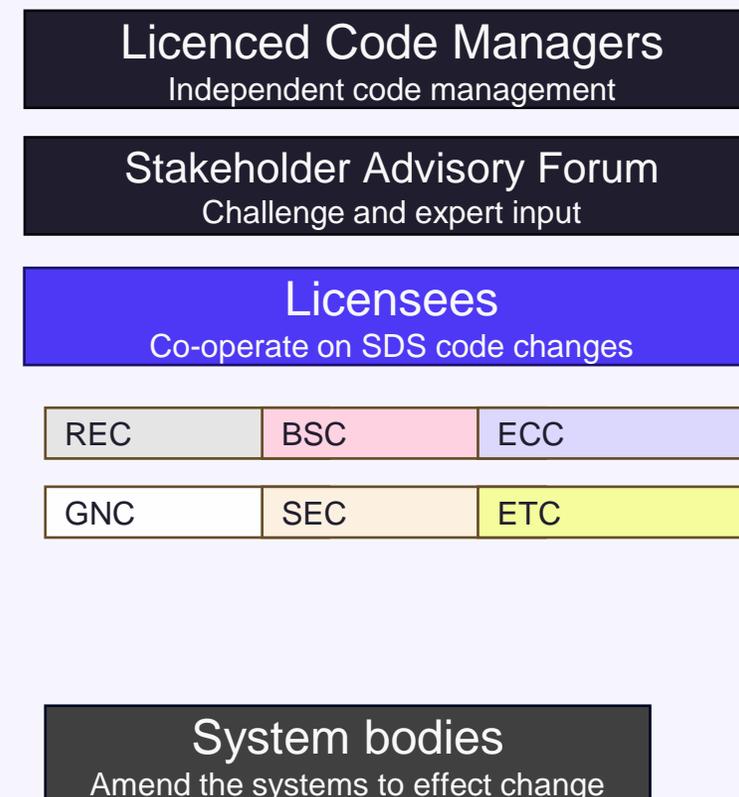
Aim: reform the governance of energy industry codes to facilitate and support the transition to net zero

How: Energy Act 2023 includes new powers and responsibilities for Ofgem and a new licensing regime for code managers

Current Structure



Future Structure



Contents of the SDS for the REC

The SDS sets all the initiatives that will or may require changes to the REC across three-time horizons.

- There is uncertainty in whether and if so what changes will be required for all time horizons.
- Some initiatives in the think and plan and listen and wait categories are fairly speculative.

Act Now: 2 budget years

- Non-domestic retail policy
- Code governance reform
- Smart Secure Electricity Systems: tariff interoperability
- Market wide half hourly settlement
- Digitalisation

Think and Plan: 3 budget years

- Code governance reform
- Consumer Confidence Programme, Vulnerability Strategy and Priority Services Register
- Future retail policy and debt management
- Regulatory flexibility for innovation
- Smart metering and retail market operations
- Sector-wide financial resilience

Listen and Wait 3-5 budget years

- Code governance reform
- Local energy
- Retail market strategy

REC act now requirements

Non domestic retail policy

Changes are in train through R0137 and R0155

Code reform: Prioritisation and net zero objective

We are looking at the impact of a change to prioritisation and any possible net zero objective

Code reform: New strategic functions and phase one transition to code manager arrangements

We are developing arrangements to meet the licensing obligations and waiting for Ofgem's consultation on the implementation of code reform

REC act now requirements

Smart Secure Electricity Systems: Tariff Data Interoperability

We are awaiting the outcome of the SSES consultation. RECCo is currently the preferred body to deliver tariff data interoperability

Market Half hourly settlement

There are likely to be changes the code arising from the testing, qualification and migration phases

Digitalisation

Implementation of the data best practice guidance through licences and codes, potential for consumer consent technical solutions in the REC, and some code changes from implementing the data sharing infrastructure

We anticipate some change to the SDS

Example 1:

- **Planning and Infrastructure Bill** includes provision for “**pounds for pylons**” initiative, offering homeowners within 500m of new or upgraded electricity transmission infrastructure a **bill discount of up to £2,500** over ten years
- Discounts applied directly by **electricity suppliers** to qualifying consumers, funded via an **industry-wide cost redistribution mechanism**
- This appears to be linked to the SDS priority on **accelerating onshore network investment** in Objective 6.1 of the preliminary SDS, currently in the “listen and wait” 3-5 horizon and relevant to Distribution Code, STC and “unknown”
- However, the government timetable indicates an **implementation target of 2026**
- The RECCo SDS consultation response will seek clarity over timetable and impacted code(s)

Example 2:

- Objective 14 of the preliminary SDS will require all code to contribute to Act Now to “**make a more digital energy system work for consumers**”
- This will include the establishment of a **Consumer Consent** platform, which Ofgem is minded to have delivered by the REC – the decision on that is expected late April and will likely lead to more prescriptive requirements on REC (or another code) in the final SDS
- The **Data (Use and Access) Bill** significantly **raises the bar** on digitalisation and customer data sharing, seemingly consistent with work on consumer consent to date, but with potential impacts on the **final SDS**

Principles for the SDS

Improve certainty:

- Where possible 'Act Now' requirements should have already been signposted as either a think and plan or listen and wait category in a previous SDS
- All the relevant codes need to be identified in the 'Act Now' category. In some stances a code has been identified as unknown in this category
- Where possible initiatives should consistently follow the timescales allocated to it and not brought forward

Realistic and Achievable:

- 'Act Now' requirements should have a genuine capability of resulting in a change proposal within two years. To support this code bodies and stakeholders should be able to meaningfully input into the SDS before it is finalised for example enabling code managers to consult on the delivery plan ahead of the close of the SDS consultation
- All initiatives in the SDS should have a genuine capability of requiring code change within five years or clearly signposted where that is unlikely to be the case



Principles for the SDS

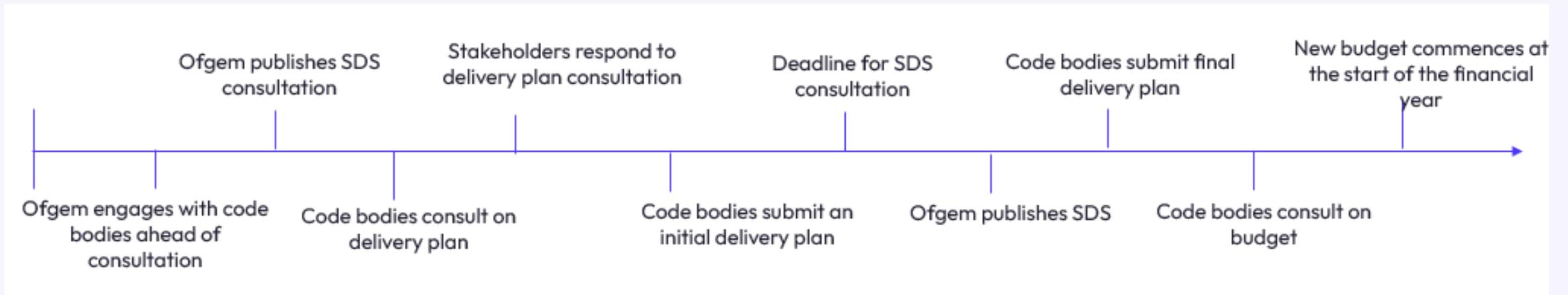
Empower code body delivery:

- Where possible Ofgem should provide more autonomy for code bodies to develop delivery plans based on the 'Act Now' initiatives rather than awaiting Ofgem and/ or government decisions. Risk of code bodies publishing delivery plans updates as these decisions are made
- Robust arrangements are needed to support code body collaboration and coordination to deliver the SDS where change is required to multiple codes with potentially a role for Ofgem to support these arrangements



Timing of the SDS

- Strategic change should be signposted well in advance to manage uncertainty and minimize the risk of budget reopeners
- It should fit into code body budget setting processes - generally speaking budgets are set over the winter and start at the beginning of the financial year
- The SDS needs to be informed by stakeholder resources
- There needs to be a logical sequence to the SDS and delivery plan consultations to ensure they inform each other. The illustration below conceptualises these principles



Comparing prioritisation matrices

Ofgem Prioritisation Criteria

Alignment with the SDS

linked to government policies and energy sector developments set out in the SDS.

Complexity

Stakeholder impact such as process changes, system impacts, cross code changes and industry resource requirements.

Importance

Value, criticality and risk to industry and consumers, and interaction with financial/ licence/ regulatory/compliance obligations, changes to costs for stakeholders

Time-Sensitivity

changes that need quicker consideration with complexity and importance being key factors as well as timescales for implementation.

RECCo Prioritisation Matrix

Alignment with the objectives of the REC/ RECCo's FWP (17%)

Complexity/ Effort./ Duration (9%)

Consumer impacts (27%)

Retail Market Impacts (17%)

RECCo, REC party, REC service provider impact (20%)

Urgency (10%)



Co-operation licence requirement

- All licensed parties to REC will have a new standard licence requirement to co-operate with code managers on change proposals required to meet the SDS
- The code manager can reasonably request information from a licensee to support the change proposal
- The code manager will need to demonstrate that its request has been assessed on the basis of five criteria:
 - **Nature of Cooperation** – Justifying why cooperation is needed and whether there are other ways of obtaining the information
 - **Timing** – Ensuring the request is made at the right stage in the process
 - **Impact on Code Parties** – Considering the resource burden on industry participants
 - **Volume of Requests** – Preventing excessive or duplicative requests
 - **Other Impacts** – Cross-code or system interactions

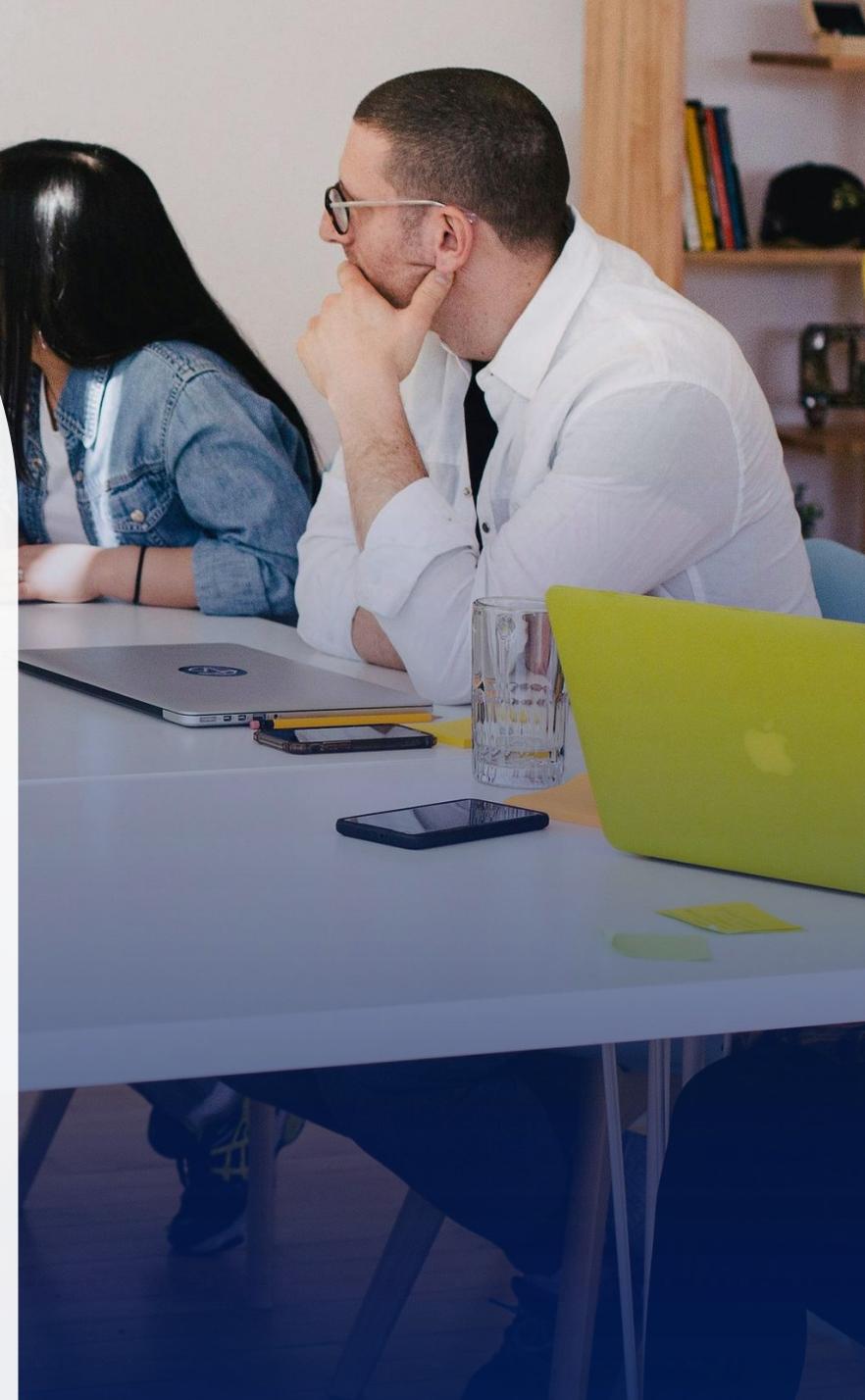


Scope for a Delivery plan

Would it be useful to have another session in a few week's time to discuss an approach to a preliminary delivery plan?

Other issues for the delivery plan to discuss in a future session:

- Should all the codes develop their own delivery plans, a single plan or hybrid approach?
- Should delivery plans be published at the same time or staggered?
- Should there be consistency in the format of the delivery plans?
- Would it be helpful to have a cross-code workshop at the start of the delivery plan consultation?



Next Steps

- Deadline for responses **28 March 2025**
- We will publish a link of our consultation response and circulate the link to attendees
- Ofgem decision on the SDS later this year
- Further consultations on implementation and the code manager licence conditions
- RECCo has been invited to submit a licensing assessment with a deadline of 11 June



Your Questions



- ✓ Please use the Microsoft Teams chat function to ask your questions or raise your hand
- ✓ Questions are not anonymous – your name will be visible once you click ‘post’
- ✓ Keep questions relevant
- ✓ Avoid mentioning other organisations
- ✓ Questions may be public after the event
- ✓ This meeting is recorded and will be shared on our digital channels



Thank you for attending!

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