

# Ofgem Forward Work Programme 2022/23

## Energy UK Response – Draft

28 February 2022

### Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of the UK's power generation and over 95% of the energy supply for the 28 million UK homes as well as many businesses. The energy industry invests £13bn annually, delivers nearly £30bn in gross value added on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

This is a high-level industry view in response to Ofgem's Forward Work Programme 2022/23. Energy UK's members may hold differing views on certain aspects of this consultation. We would be happy to discuss any of our points made in further detail with Ofgem or with any other party interested should they feel this to be beneficial.

### Executive Summary

Energy UK welcomes the opportunity to respond to Ofgem's Forward Work Programme (FWP) for 2022/23. We believe that it would be beneficial for Ofgem to provide periodic updates on progress they make with the programmes set out in the FWP to stakeholders, and to provide clarity on any reprioritisation it undertakes during the course of its work programme to ensure that suppliers are able to manage their resources efficiently in response.

Overall, we have observed that many strategic change programmes lack clarity, and we welcome more detail and timelines for them, such as Consolidated Segmental Statements, the Microbusiness Review, and actions to address credit balances and Renewable Obligation mutualisation. By doing so, industry can ensure that its resources are put to best use and can, in turn, work more effectively with Ofgem in achieving its desired outcomes for the energy sector.

We support an open and responsive approach to regulations given the status of the energy market over the past year and the recent price cap announcements also. Considering the status of the industry, the continuing transition to Net Zero and the increasing pressures on customers in vulnerable circumstances now prevalent, it is paramount that we work together to ensure the best outcomes for consumers and bring stability to the market.

## **Enduring Priorities**

Firstly, we want to voice our support for the continued work Ofgem have put towards Net Zero. The focus on this is paving the way to achieving the UK's 2050 target. To have this at the centre of Ofgem's work programme, alongside ensuring energy market resilience is strengthened in response to the current crisis, will ensure that the energy sector can successfully play its key role in decarbonising the wider economy.

We do, however, want to encourage Ofgem to fully embrace the system and ensure that the entire frameworks of codes and market design is progressed with Net Zero at its heart also. For instance, the Connection and Use of System Code (CUSC) objectives are not fully encompassing Net Zero and we feel there needs to be more focus on future transmission, as we move away from the use of gas.

Energy UK also notes the importance of Ofgem closely monitoring the planned Strategy and Policy Statement (SPS) to ensure the best energy policy outcomes for the year ahead. As stated before, we encourage any updates to the FWP following the publication of the SPS.

Finally, regarding the enforcement of the strategic change programmes outline in this FWP, we want to ensure that lessons have been learnt from the past years market failures, and that Ofgem will market the most robust monitoring that will remain vigilant so that stability is regained.

## **Strategic Change Programmes**

### **1. Future of Retail**

Energy UK is concerned over the lack of clarity in this FWP regarding regulatory change workstreams that have been deprioritised by Ofgem, as this has not been mentioned in the consultation at all. For example, Ofgem has not provided any clarification on expected timelines for the progression of its Consolidated Segmental Statements reform, the implementation of its Microbusiness Review reforms, or the next stages of its credit balances and Renewable Obligation mutualisation protections. Energy UK would strongly urge Ofgem to provide an outline of those workstreams that have been deprioritised and recognise others that may not be continuing at all. Timescales of when these workstreams will be considered again would also be helpful. Ofgem have previously advised that this would be covered in the FWP, but this is yet to be included for 2022/23. Delivering this clarity will allow industry to plan resources more efficiently for the year ahead, ensuring that they can both engage with Ofgem's change programmes and continue to develop proactive enhancements to their consumer offerings.

We recognise the work that Ofgem is doing on progressing its own future retail market strategy, but we have significant concerns that BEIS are also completing the same work, and there is no indication of Ofgem's intended workstream to be complementary or linked. An explanation of how the work Ofgem and BEIS are both undertaking will link up and support each other is needed, otherwise there is a risk that the work being done may be contradictory or duplicated. We feel that by doing this, it will create the most productive outcomes possible, it will not waste efforts and it will ensure that industry is best prepared to support both Ofgem and BEIS in their reviews.

Finally, we feel that Ofgem should be pushing BEIS to review legislation already in place surrounding the price cap to reform it in the long-term, bringing it into line with Net Zero ambitions and making it fit for the future retail market. This is needed to create a retail market strategy that provides all consumers, including the disengaged, with reliable, carbon-free energy at least cost, supported by a regulatory environment that enables innovation and resilient market development.

### **2. Low Carbon Infrastructure**

Energy UK broadly supports the approach set out in this section. We would note that work alongside network companies to enable uptake of heat pumps should be coordinated with efforts to decarbonise transport, the required increased deployment of heat networks, and the potential rise in local energy projects.

While networks hold most information about delivery of low carbon infrastructure at present, it is vital that changes integrate the views of a wide range of stakeholders, including technology providers, local authorities, and energy retailers, in order to ensure coordinated consideration of the evolving business models, technical approaches, and customer behaviours into the approach. Energy UK would offer our support here to ensure effective engagement with our own membership and the wider sector.

### **3. Full Chain Flexibility**

We are keen to see more focus and progress on full chain flexibility this year as it is key in delivering a reliable and cost-effective energy system, especially given other workstreams, for example BEIS' move to annual Contracts for Difference (CfD) auctions, which will bring through more renewables more quickly, but brings no clear plan on how to balance the system. We appreciate the revision of the Smart System and Flexibly Plan (SSFP) last year, as this spoke to many of the recommendations and concerns set out in [our report on the subject in 2020](#).

Confusion remains for many in industry about the interconnected Full Chain Flexibility Forum and Smart Systems Forum, in terms of how these relate to each other and how the work will be effectively coordinated and monitored to remove any chance of duplication. Energy UK finds both fora valuable, and is in favour of continuation of both, but further public clarification about the function and focus of these groups and workstreams would be welcome. A useful task for these groups would be to act as a focal point for coordination of the vast number of change processes ongoing, acting as a means to hold to account bodies responsible for delivery of interdependent changes, particularly where there are delays to delivery.

Welcome progress has been made in a number of areas of the SSFP, and Energy UK will continue to monitor progress and feed into Ofgem and BEIS regularly on delivery. We do not, however feel that this updated SSFP is addressing some of the pressing issues quickly enough. This has been exacerbated by low resource and high staff turnover across BEIS and Ofgem teams in recent years. For example, when looking to demand side response at the domestic and SME levels, the approach seems to be relying on Market-wide Half Hourly Settlement (MHHS) and long-term phase out dates for transport and heat technologies to deliver uptake of time of use tariffs that will incentivise customers to shift their demand.

The National Grid Holistic Network Design is very useful but does not have enough long-term scope. It is only targeting another 10 GW of new connections by 2030, but we feel there should be ambition to plan further ahead, to 2040 and beyond as this could determine the outcome of the CfD auction process. This is largely due to the reality of it taking around 7 years from application to delivery for large electrical infrastructure. So, we urge Ofgem to work with National Grid and look at a holistic approach to network design with targets considering 2040 and beyond, and around 25-30 GW of new connections. This could then be fed into what a future Transmission Network Use of System (TNUoS) model would look like and demonstrate the multi-functional assets created, making it a much more efficient process for investors and generators.

With Large Scale Long-duration Electricity Storage (LLES) providing much needed flexibility to the system, new developments are hindered by the slow progress on policy development in this area. Revenue uncertainty remains one of the most significant barriers to the development of LLES. Rapid development of the Cap and Floor regime would provide an appropriate support mechanism, and some view that this could be done with relative ease and at speed given that no underlying changes to primary legislation would be required.

Regarding networks, more could be done in the current RIIO ED2 process to work closer with DNOs in understanding their low voltage networks better and sharing that information with industry participants

in an effective manner. We would also ask that the Open Networks Project be closely monitored to ensure timely delivery of the developing reforms in that space. It should be noted that the Energy Networks Association (ENA) has, to date, separated its work on the connection of low carbon technologies at the demand side from the Open Networks project, instead progressing changes in internal groups, making it more difficult or wholly impossible for the sector to input effectively into changes. These workstreams should be better integrated into the Open Networks project to enable the newly formed Challenge Group to input into these changes in the context of wider modernisation of the networks.

Incorporating flexibility into the current Retail Strategy, ensuring any new retail market enables customers to make full use of any flexible assets they have, such as electric vehicles and battery storage, should be a focus for the year. We believe all customers will benefit from a market that integrates flexibility, but this will require education and even more so, engagement, to enhance consumers' trust and willingness to take up new opportunities that flexibility will create. We acknowledge the savings for 2050 reported in the SSFP but would like to see Ofgem and the industry putting this into action for consumers to see themselves.

#### **4. Data and Digitalisation**

Whilst we do encourage the enhancement of the data transition, industry would benefit from more detail on if and when the supplier community will be asked to join in with this programme, since all the activity is focused on data solely from DNO's currently. The Data Modernisation work is welcome, but we are yet to see the Ofgem leadership promised in this FWP. We welcomed the digitalisation strategy and support the implementation of that plan. However, disjointed workstreams to enable data and digitalisation efforts to progress make it difficult for industry to know how and when to feed into these change processes, and we hope that the DSAP will deliver the level of clarity and certainty required to enable effective input from the sector.

Coordination and harmonization of data flows from network companies and the ESO must be progressed at pace as a low regrets solution to the current lack of visibility on the state of the network, and we welcome the work being progressed to modernise the LTDS to better incorporate and simplify the availability and usefulness of this data. There remain deficits in information about the state of the network, and we would welcome more drive from Ofgem in ensuring these are resolved through improved network monitoring and sharing of that data by DNOs.

#### **5. Energy Systems Governance**

We want to emphasise the importance of an aligned Government policy and regulatory framework to ensure industry can deliver Net Zero ambitions efficiently, which ultimately benefits consumers by providing them protection. We welcome the work being progressed to renew Ofgem's engagement processes and to establish clear role and responsibilities for the Future System Operator. We would welcome further clarity from Ofgem on its preferred approach to Energy System Governance, particularly in areas where activity cannot be progressed due to other interdependencies. For example, regulation of heat networks and electric vehicle charging are lacking, but we are aware that Ofgem cannot overstep its remit without government direction.

We would note the challenges seen in engagement on topics like the transition to DSO, where industry has often had its concerns dismissed out of hand. A more effective and open approach integrating holistic cost benefit analysis would be welcome and would enable more effective input from a much broader set of stakeholders.

Ofgem holds a particular role in ensuring, alongside BEIS, that critical change processes are not further delayed by the changes made to ESO and DSO. Assessing which programmes must continue to be delivered through the transition will support delivery in a timely manner while the much-needed changes to energy system governance are implemented.

## **6. Transforming Ofgem**

Energy UK fully supports the Transformation Programme set out by Ofgem. The change process is critical to effective engagement with and understanding of the sector and must be delivered in a timely manner. The engagement from Richard Smith and Charlotte Ramsey, among others, has been particularly welcome throughout the process, and we welcome that continued information sharing.

It is critical to note that, as with any internal change process, there is a clear risk for disruption, both to business as usual in delivery of projects, and to staff at the organisation. The impact on staff is of concern to the sector and to the UK's delivery of Net Zero, as institutional memory must be retained to continue delivery of workstreams at pace.

Energy UK offers whatever support it can in ensuring consistency as staff turnover at Ofgem can be expected to continue to be high for some time. We would welcome consideration of where Energy UK and the sector as a whole can support during this wholesale change, including formalising an approach to meeting with new staff, introducing new staff to our membership or a wider part of the sector, and even delivering tailored training courses as has been done before for many new Ofgem and BEIS staff.

For example, ensuring adequate resourcing at the Ofgem smart team is crucial in meeting challenges of the new smart hard target for suppliers. Ofgem must provide clarity and direction on its approach to monitoring and enforcing the new obligation, such as how it considers the impact of market conditions on suppliers. Adequate and consistent representation is needed from Ofgem at the Smart Metering Implementation Programme transitional governance and the Smart Energy Code endurance governance forums. With such consistency, sufficient knowledge and experience can be gained to hold both suppliers and DCC accountable against their obligations and decisions can be founded on sound understanding of this complex area of policy.

## **7. Burden reduction**

Considerations on how to reduce regulatory burdens, such as reporting, on suppliers should be included in this programme. We want to be assured that work is not being duplicated. This echoes the fact that we encourage a close relationship with BEIS to discuss supplier submissions and therefore align everyone's efforts.

## **Additional Comments**

### **Complaints Handling Standards**

Energy UK produced a paper on the case for revising the 2008 Complaints Handling Standards regulations, and Ofgem had committed to take up this work. We recognise and understand the impact that Covid-19 and the gas crises has had on priorities, but we still urge Ofgem to ensure that revisiting the Complaints Handling Standards and reviewing the overall customer complaints journey remains on its agenda. We recommend that this workstream is reopened at the earliest opportunity, and we are keen to work with Ofgem and BEIS to achieve progress.

Finally, Energy UK acknowledges that Ofgem has previously shown interest in public KPIs for the OS: E. We suggest the OS: E should be working to specific KPIs, and we would, therefore, welcome the opportunity to work with Ofgem, industry and the OS: E to develop a set of public KPIs relating to the OS: E's performance, which will lead to greater transparency for customers and suppliers, and build trust in the complaints and resolution processes.

We trust Ofgem will find these comments useful, however, for further information or to discuss our response in more detail please contact Madeline Costello on 0207 747 2921 or [madeline.costello@Energy-UK.org.uk](mailto:madeline.costello@Energy-UK.org.uk).